

ANNUAL REPORT 2007



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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) until March 2010. Its mission is “to make financial markets work for the poor” in African countries. In practice, this means extending 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 information environment; and
- Promoting innovation in product design and delivery, through the provision of concessional resources.

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CHAIRMAN'S REVIEW



The financial year ended 31 March 2007 was a highly eventful year for financial markets in South Africa and across the African continent.

In South Africa, two events are particularly noteworthy: the Competition Commission enquiry into bank charges, and the National Credit Act becoming effective. While the former is continuing, it is clear that both have potentially far-reaching consequences for South Africa's financial sector. The Competition Commission has the task of shedding light on the complex relationship between bank charges, the profitability of the banking sector and access. The National Credit Act (NCA), once fully implemented, will outlaw unscrupulous lending practices, but will also make life more complicated for reputable lenders, through new reckless lending provisions, additional disclosure requirements and interest rate caps even for microloans. The impact of the NCA on access is therefore uncertain and must be monitored.

A third event confirmed by FinScope™ SA 2006 was that for the first time in South Africa's history, more people now have a bank account than do not; 51% of adults, or 16-million people, now have a bank account, including 1.8-million who claimed use of the Mzansi basic bank account, underscoring the contribution made by the Financial Sector Charter towards Broad-Based Black Economic Empowerment. The numbers suggest that, as society changes and some population groups move up the economic ladder, a new opportunity has emerged to replace the growth that had become harder to sustain in the banks' more mature, traditional markets. That business in lower-income markets can be conducted sustainably seems to be a strong incentive for the industry.

Significant challenges remain – especially in the insurance industry where, despite innovations around new distribution methods (such as Hollard's off-the-shelf products offered through PEP Stores), insurance use remains low, at least outside funeral insurance. Indeed, short-term insurance is practically non-existent in the LSM 1-5 population.

Outside South Africa, improving macroeconomic conditions have contributed to widespread financial sector reform in many countries. Still, the lack of demand-side information in many countries holds back the pace of commercial innovation and pro-access policy reform. So it is with great pride that we were able to see FinScope™ surveys completed in four new countries: Zambia, Kenya, Tanzania and Uganda. Surveys are also now under way in Nigeria and Ghana. FinMark Trust is confident that this valuable new information will be of great benefit to stakeholders in those countries.

We were delighted that DFID South Africa confirmed an extension of FinMark Trust's mandate, which means that our funding is secure until March 2010. We thank DFID South Africa for this vote of confidence and ongoing support. The extension was premised on the fact that financial markets in South Africa are continuing to undergo profound changes, requiring information and independent analysis of the type that

FinMark Trust can bring – in short, our job in South Africa is not done. Secondly, the FinScope™ initiative, still in its infancy outside South Africa, will need support if it is to achieve its market-changing purpose. And, thirdly, there is an opportunity in selected countries (Zambia, after the successful FinScope™ implementation there would be one) to drive market change more intensively using the techniques that we have learned over the years in the Southern African Customs Union (SACU) countries.

The Board remains unchanged from last year, and I would like to thank my fellow trustees for their commitment and advice over the past year. I know this is highly appreciated by the management of FinMark Trust. We will give consideration to the appointment of new trustees in the coming year, especially from the wider African continent, reflecting our work outside SACU.

Finally, I would like to thank the team at FinMark Trust for their hard work and dedication. FinMark Trust continues to be regarded as a high-quality resource, not just in Africa but globally too, and the team should be congratulated for their achievements.

Nkululeko Sowazi
Chairman

Johannesburg, June 2007

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.

MOBILE PHONE BANKING

Much has been said about the potential of mobile phone banking (m-banking) as it rides on the back of the remarkable explosion of mobile phone use in Africa and beyond. There are now more mobile phone users in the developing world than in the developed one. More than 800-million mobile phones were sold in the developing world in the past three years.

M-banking holds the promise of dramatically lowering costs and more effectively reaching the mass market. Established mainstream banks are all offering it as an add-on to existing accounts. But it is new mobile phone banks, which bundle the opening of a debit card with mobile phone banking features, and often use alternative distribution systems, that are bringing basic banking to the unbanked.

Pioneer mobile phone banks such as MTN Banking and WIZZIT, which FinMark Trust supported in their early days, as

well as Globe, Smart and Celpay have all been showcased as leading innovators that are using technology to expand access to financial services.

The scope for m-banking in South Africa and Kenya is clear from the FinScope™ and FinScope™-affiliated surveys conducted in these countries. These demonstrate how mobile phones are becoming a valued asset among the low-income population. However, ignorance about m-banking, even among presently banked customers, and also considerable mistrust of using these devices for banking, is holding back use. These perceptions must be dispelled if m-banking is to be adopted by a broader base of low-income people.

The greatest challenge is ensuring that the m-banking offerings are appropriate for low-income consumers. What FinMark Trust calls the 'customer touch points' must be examined.

These show when m-banking offerings are suitable to bring in the low-income market. For example, if the m-banking software requires a newer 32k SIM card banks need to ensure that their target market either has the SIM card or can easily upgrade to one. Figure 3 is useful for assessing the m-banking offering against the market.

Technology has the power to improve access to financial services – but success will be built on educating future customers about the possibilities of the technology. FinMark Trust will be looking at new developments, and working hard to see how they can be improved to profitably serve these new markets for the good of the financial services, and above all for the low-income consumer.

Figure 1: M-banking universe in Kenya

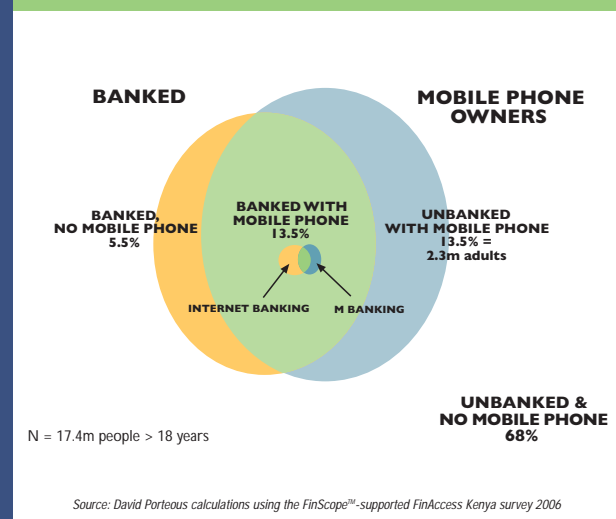


Figure 2: M-banking universe in South Africa

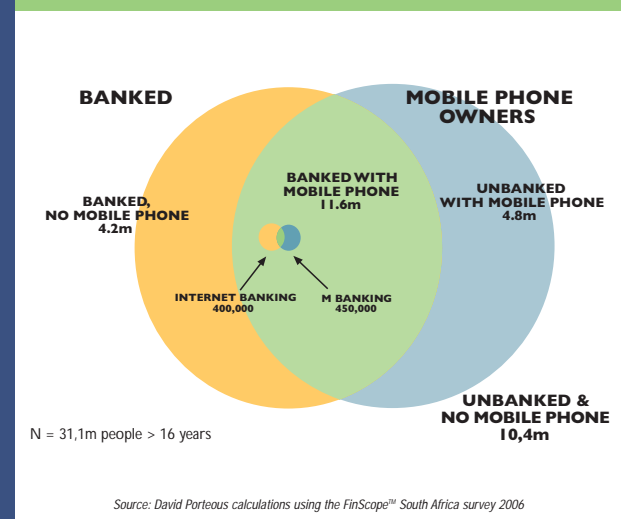
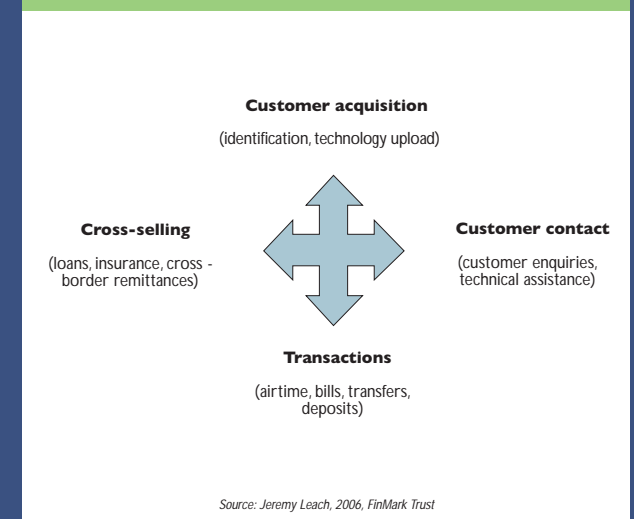


Figure 3: Customer touch points



HOUSING FINANCE

Enhancing access to housing finance for low-income earners in South Africa is complex, as the past few years of the Financial Sector Charter have demonstrated. At a most basic level, housing finance is relevant only if there is some kind of house to buy. In the current housing environment this is not a simple requirement. Recent property price appreciation and building cost inflation have meant that most South African households (upwards of 85%) cannot afford even the lowest cost house on the market, notwithstanding their access to finance. In fact, their access to finance has, ironically, exacerbated the affordability crunch: too many buyers chasing too few houses is causing rapid price appreciation at the bottom end of the market.

This is not a uniquely South African phenomenon. UN Habitat notes the predominance of “two extreme outcomes of current shelter systems that are being witnessed today: affordable shelter that is inadequate, and adequate shelter that is unaffordable.”¹ In both the developed and the developing world, adequate housing has become unaffordable for a growing number of people.

Still, housing can contribute significantly towards the asset wealth of poor households. When a household's asset wealth improves, its capacity to mobilise this towards a more sustainable livelihood also improves. Enhancing access to appropriate housing finance, which supports the realisation of adequate housing, is therefore an important poverty alleviation strategy.

In the past year, the FinMark Trust has explored the notion of the housing asset, looking at the ways in which housing finance can support growing this asset for poor households. Together with Nedbank, the Social Housing Foundation and the national Department of Housing, the FinMark Trust undertook a study of small-scale landlords and home-based enterprises in the townships and inner cities of Gauteng. The study found that housing provides a critical platform for residents to become entrepreneurs, either as small-scale landlords or home-based enterprises. This earns them an income and builds their asset

wealth at the same time, while also supplying much needed affordable rental accommodation and services to other low-income households.

This led to a more dynamic understanding of the housing asset. Housing is not just a social asset, or a financial asset, it can also be an economic asset. FinMark's research in this area identified that small-scale landlords are generating a rental income of approximately R421-million a month, or just over R5-billion a year, providing accommodation to more than 1,8-million households. Most landlords are otherwise unemployed. In the townships, many are elderly women with little or no other income. An estimated 355 000 home-based entrepreneurs are active in townships and inner cities across South Africa, comprising about 13% of the total population of these areas, and generating about R476-million a month. Together, households that use their housing as a source of income generate upwards of R11-billion a year.



In exploring the nature of the housing asset, the FinMark Trust has fundamentally shifted the access-to-housing finance debate. This opens the possibility of motivating for other forms of more affordable finance that can support the realisation of the economic asset. Housing microfinance becomes an important tool alongside the more traditional mortgage products. How these various housing products work together is an issue that the FinMark Trust will continue to explore.

¹ UN-HABITAT 2005, Financing Urban Shelter: Global Report on Human Settlements 2005.

Small businesses play a vital role in any economy: they provide employment and competition, a few innovate and grow to businesses of scale and sophistication, and importantly, a vibrant enterprise sector helps reduce the over-concentration of economic power.

This year, the Gauteng Enterprise Propeller and FinMark Trust, supported by the dti, FNB, Standard Bank, Absa and TransUnion, commissioned a survey to remedy a lack of reliable information about small businesses, using Gauteng, South Africa's richest province, as a pilot.

The survey found that:

- More than one-million people, or one in six adults, in Gauteng run small businesses;
- Non-South African individuals are responsible for 88 000 of Gauteng's small businesses, although this number is likely to be higher;
- Trading accounts for two-thirds of small businesses;
- Only 27% had a plan for engaging with 2010 opportunities;
- 69% of small businesses surveyed operate from home;
- Credit extension is low – only 2% say they use loans;
- 70% of small businesses do not create any jobs;
- Half of small businesses make between R1 300 and R2 000 a month, a fifth make between R750 and R900. These serve a vital social function and help make the poor a little less poor; and
- A quarter of small businesses report crime and theft as a problem.

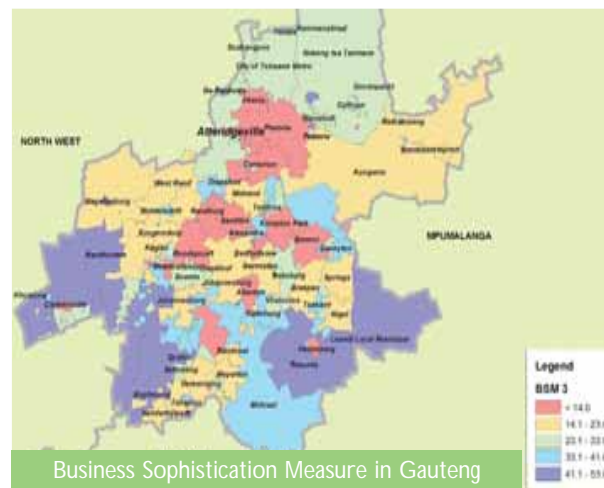
Business Sophistication Measure

The small business market is so varied that it needs a classification tool that does not look in a one-dimensional way at the formality, size or legal status of the business. Hence the Business Sophistication Measure (BSM) was created. This takes variables such as where the business is conducted, whether a business keeps financial and other records and pays taxes, and issues of access to financial services into account. The BSM identifies 7 segments, plotting the continuum of sophistication from informal street vendors to more sustainable business practices.

In BSM 1 all small businesses are vendors and hawkers. They have no access to water and electricity where they operate which is mainly on footpaths or no-fixed location. By contrast, in BSM 7, 94% of businesses are registered and have been operating for more than 10 years; most have a budget, written business plan, financial records, use technology and can access a variety of financial products. A budget and technology come to the fore in BSM 5 upwards. Insurance product use starts in BSM 6. In BSM 5 and 6, businesses move from sole trader to employment-generating entities of greater sophistication. BSM 7 steps up significantly from other BSMs by creating on average nine jobs and having an annual turnover averaging R463 747.

This “zone of transition” is a moving target. The zone of transition for personal banking is in BSM 3 to 4, whereas for business banking it is in BSM 4 to 5. Mobile phone use is a significant differentiator of businesses found as low as BSM 2.

The BSM should allow government, the financial sector and other relevant actors to target their small business strategies to meet the needs of different segments, as well as identify opportunities for innovation in service and product provision.



Zone of Transition

Zone of Transition						
BSM1	BSM2	BSM3	BSM4	BSM5	BSM6	BSM7
16 - 24 years (20%) 25 - 34 years (49%)	16 - 24 years (17%) 25 - 34 years (49%)	16 - 24 years (16%) 25 - 34 years (40%)	35 - 49 years (37%) 50+ years (21%)	35 - 49 years (34%) 50+ years (20%)	35 - 49 years (39%) 50+ years (24%)	35 - 49 years (40%) 50+ years (29%)
Some primary (11%) Some high school (61%)	Primary complete (14%) Some high school (49%)	Some primary (9%) Some high school (50%)	Some high school (43%) Matric (30%)	Matric (33%)	Matric (38%) Post matric qualification (21%) Post graduate degree (4%)	Matric (29%) Post matric qualification (48%) Post graduate degree (5%) Bachelors degree (8%)
Employees mean 0.1	Employees mean 0.14	Employees mean 0.23	Employees mean 0.47	Employees mean 0.85	Employees mean 1.78	Employees mean 8.88
Annual average turnover R9,112.90	Annual average turnover R10,723.39	Annual average turnover R16,793.03	Annual average turnover R24,710.21	Annual average turnover R27,841.46	Annual average turnover R66,597.48	Annual average turnover R463,747.22
Business operates in informal area/shack settlement area (35%) City centre /CBD (15%)		Business operates in informal area/shack settlement area (33%) Township (47%)	Township (60%)	Township (60%) City centre /CBD (12%)	Suburbs (34%) Small holding/ farm (6%)	Suburbs (53%) City centre /CBD (19%) Small holding/ farm (12%)
No work experience (63%)	3 years work experience (6%)	Hostel (8%)		5 years work experience (7%)	10 years + work experience (21%)	
Business operating less than a year (27%)		Business operating more than 10 years (18%)	Business running 3 - 4 years (23%)		Business running 7 - 8 years (10%)	
Sale of goods (89%)			Door to door selling Landlord (4%) Service industry (18%)	Door to door selling Landlord (4%) Construction (5%)	Service industry (30%) Manufacturing (7%)	Professional with own practice (15%) Service industry (36%)

FINANCIAL CAPABILITY AND CONSUMER RECOURSE



For financial markets to work well consumers must be able to make informed choices about financial services and service providers. They also need appropriate recourse in the event of a legitimate dispute. Consumers need to know where to get advice, where to complain, and on what basis they can complain.

Globally, ideas about consumer education have moved beyond financial literacy to encompass the concept of “financial capability”. Financial capability can be defined as both an understanding of financial topics and the ability to put that knowledge into practice.

People must be taught a kind of financial shrewdness – not the typical financial product-based education and communication so often seen in the past. Building financial capability could benefit all income groups. However, financial knowledge is weak in the lowest income tiers. As an example of the challenge ahead, FinScope™ 2006 found that 89% of the population had either not heard of the term ‘ombud’ or did not understand what an ombud was.

Building financial capability is crucial, not only for a well-functioning market, but to develop the necessary trust in the financial sector to draw more people in. Knowing that they can get help when someone has cheated them is part of establishing trust among consumers.

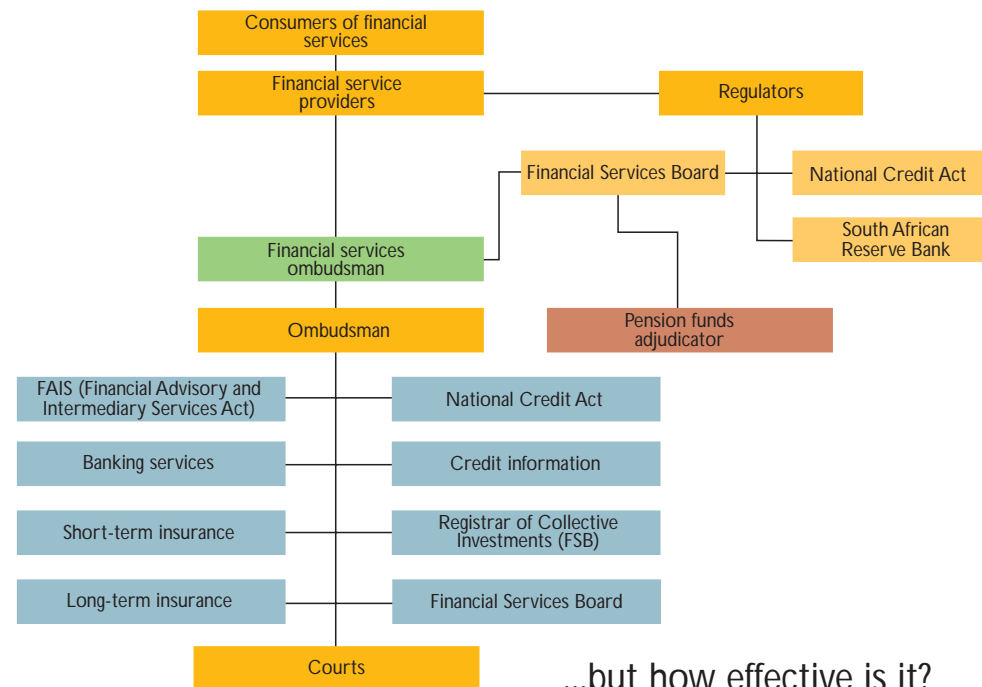
The National Credit Act has introduced a number of protections for South African consumers, ranging from the new National Consumer Tribunal, to curbing reckless lending and having a more transparent disclosure of the cost of borrowing. The act also lays down the framework for dispute resolution, including the referral of a complaint to an ombud.

In recognition of how important this is, FinMark Trust is researching the landscape of consumer recourse in South Africa's financial markets. The aim is to make recommendations that could lead to financial markets working better for lower-income consumers.

Recourse options may be judicial or non-judicial. There is a range of existing offices, including ombuds, adjudicators and regulators. Behind these offices lies the court system as the last resort for dispute resolution – but the court system is out of the financial reach of poorer consumers. It is therefore extremely important for the non-judicial avenues of recourse to be effective. Effectiveness depends in part on accessibility. The question is: how accessible are the non-judicial avenues of recourse, especially for poor consumers?

One anomaly is that there is no ombud set up specifically to deal with disputes involving credit from retailers such as furniture and clothing stores, or non-bank microlenders. There have been calls within the financial sector for a dedicated ombud to be introduced, whose primary responsibility would be complaints involving loans from these providers. The research will therefore also look at the desirability, and possible design features, of a consumer credit ombud.

Structure of recourse in South Africa



...but how effective is it?

FINSCOPE™ CONSUMER PERCEPTION SURVEYS IN EAST AFRICA

FinScope™ surveys have been undertaken in the past year in South Africa, Zambia and in East Africa in Uganda, Kenya and Tanzania.

The proven FinScope™ survey formula that was used in Southern Africa was used in East Africa. Seeing it applied in countries further north was gratifying for the team, which worked hard to gain acceptance and recognition for FinScope™ in the Southern African region. Watching this process start to take hold in East Africa is even more fulfilling. There is an appetite for the data the survey delivered, and a sense that the time is right to move from information to intervention and innovation.

Uganda has yet to launch its findings, and this is likely to happen in June 2007. Uganda's findings are expected to reflect the general challenges for developing markets such as poverty, limited financial access and limited employment and development.

Uganda's extreme diversity of people introduced us to a different world than the one we know in Southern Africa, with a deep divide between urban and rural, and traditionalists compared to modern city dwellers. Many people remain outside of any monetary system and do not deal in money at all. Others are not numerate.

The Ugandan national survey findings should provide insights into the market, which will open up an opportunity to meaningfully include people in the formal financial system – especially the traditional rural citizens whose lifestyles are so different from that of the average urbanised Ugandan.

The FinScope™ Tanzania findings were launched in April. Both government and the financial service providers have responded

with interest. A particular challenge in Tanzania is that 57% of the 21-million adult population (16 years and over) is under the age of 34 – and another 14-million are children under the age of 16.

Speedy development and innovation in education, business and technical training, infrastructure, production and market development is absolutely essential. Again, there is the sense that the time is right for development.

The Kenyans have called their study “FinAccess”. The findings were launched in January 2007. Interviews were conducted with 4 214 citizens in August and September 2006. A similar pattern to that of Tanzania emerges: a relatively youthful populace needing education, skilling, employment or a way to make an income.

Successful financial access is built on an appropriate environment in terms of service provision, supportive policies and potential consumers with some disposal means. In the Kenyan environment these should to some extent all be possible.

Private-public co-operation is essential for effective market development in every country. The increased market understanding that accompanies the FinScope™ programmes is making it possible for better informed and stratified market interventions.

The application of the survey findings will equip policymakers and service providers in East Africa with the ability to understand what the findings are saying about their markets, and to catalyse change through enhancing existing initiatives and developing additional innovative interventions and services.





Together with the Financial Sector Charter, the National Credit Act is probably the most important intervention affecting the credit market and financial services since South Africa's transition to democracy. It will significantly change the regulatory environment. However, the full effects of the legislation, as well as any unintended consequences on the credit market and other financial services, are yet to unfold.

FinMark Trust and the Centre for Microfinance has commissioned ECI Africa to design a regulatory impact assessment tool to track the effect of the National Credit Act (NCA) on access to financial services.

The NCA will be fully in force in June 2007 and aims to bring South Africa's credit legislation in line with that of developed countries. The Act is designed to curb undesirable lending and other abuses, and increase protection for consumers. While it is likely to do its job of reducing undesirable credit practices, the financial system may take some time to adjust to the new law – and the implications for the policy objective of broadening access to financial services remains to be seen. The danger exists that policymakers will underestimate the magnitude of these far-reaching changes, which include registering all credit providers and introducing debt counsellors to help over-indebted customers.

The Centre for Microfinance, based at the University of Pretoria, will collect the relevant data for this regulatory impact assessment. The Centre's interest stems from both an academic and a public service objective. The implementation of the NCA creates a unique opportunity to follow the impact of legislative instruments in a market challenged with access problems.

The Centre's initial focus will be an assessment from the *perspective of the poor*, looking at what the NCA calls "*developmental credit*", that is lending for low-income housing, small and medium business, education and agricultural finance. It will also monitor the general access to financial services by the poor.

In addition to the National Credit Regulator and the banks, other government departments such as the National Treasury and the trade and industry, housing and agriculture departments, as well as the South African Reserve Bank, should find it useful. The specific interests of these entities embrace the availability of developmental credit, the stability of the banking sector and the quality of banking assets, and the growth of the credit market. The aim of the research is to underpin any further credit law reform.

THEME AREAS AND ACTIVITIES

Table 1: Theme areas and activities – Part 1

THEME AREA	INFORMATION ARCHITECTURE	TRANSACTION BANKING	HOUSING FINANCE
Champion/s	Darrell Beghin Anne-Marie Chidzero (FinScope™ BNLS)	Jeremy Leach	Kecia Rust
Objectives	To produce credible information about financial needs and usage in SACU countries on an ongoing basis	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 2006/7	FinScope™ Small Business pilot survey FinScope™ South Africa consumer survey 2006 FinScope™ Mobile Banking	Send money home Rural banking	Housing entrepreneurs (Small scale landlords) Causes of default Housing access frontier Tax credits

Table 2: Theme areas and activities – Part 2

THEME AREA	INSURANCE	FINANCIAL REGULATION & POLICY	AFRICA SPECIAL PROJECTS (OUTSIDE SA)
Champion	Jeremy Leach	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 through speaking engagements outside South Africa
Main projects/ activities 2006/7	Insurance for HIV/AIDS Insurance intermediaries Long-term contractual savings products Scenario papers (expert workshop on FSC commitments, weather insurance concept note, access frontier tool) International Association of Insurance Supervisors (IAIS) project with IDRC/GTZ	Financial legislation (draft survey tool) Position papers (access of women) Analysing access to saving services Assistance to National Treasury	FinMark forums in Namibia and Botswana Africa strategies (development opportunities in housing finance in Zambia and housing finance literacy review in Africa) BNLS information architecture (Lesotho focus groups)

Projects completed but not reflected above, are FinScope™ Kenya, FinScope™ Uganda, FinScope™ Tanzania and phase 1 of the case studies book.

TRAILERS FOR HIRE



Darrell Beghin

Anne-Marie Chidzero

Jeremy Leach

Kecia Rust

Mark Napier



ES, BED SHEETS, SUIT CASES, KITCHEN
FISHING NETS, HOUSE HOLD AND COSMETICS



CEO'S REVIEW

Amartya Sen, in his work *Development as Freedom*, talks about the basic importance of the freedom of market transaction: "We have good reasons to buy and sell, to exchange, and to seek lives that can flourish on the basis of transactions. To deny that freedom would be in itself a major failing of society".

It may be helpful to think about financial exclusion as the denial of the freedom to transact. This has particular resonance in South Africa, stemming from the country's immediate political past, that is both eloquent and uncomfortable. Whether, outside South Africa, access to financial services has the same political resonance is debatable. A surprisingly high number of African countries are reforming their financial sectors, but the connection between these programmes and access is often indistinct. Certainly, access may not be the priority in countries tackling other more urgent requirements, such as a functioning payments system or basic infrastructure. Nevertheless, politicians across Africa do talk about the importance of access to finance, and FinScope™ has been extremely effective in making real this debate which, in the absence of good information, can seem vague and intangible.

FinScope™ studies have been completed in four new countries – Kenya, Uganda, Tanzania and Zambia – and surveys are under way in Ghana, Nigeria and Pakistan. Access is poor in these countries. While Nairobi has one bank branch for every 9 000 people, Kenya's Western Province, with a similar population, has only one branch for every 129 000 people. In Zambia, 66% of the population do not use any form of financial product, formal or informal.

Although the picture emerging from the FinScope™ surveys can seem bleak, they have a fundamentally positive purpose, which over time should contribute to improving the policy environment and stimulating the commercial innovation needed to transform the way financial services are delivered.

We have been greatly encouraged by the reaction to the FinScope™ Small Business pilot project launched in November 2006. This was a joint initiative with the Gauteng Enterprise Propellor and, although focused on Gauteng only, has confirmed the value of a segmentation approach, which we have called the Business Sophistication Measure. This measure should help policymakers pinpoint interventions more accurately and commercial providers identify new opportunities in this difficult market. Talks are under way with the Department for Trade and Industry about conducting the survey nationally.

Our work in insurance has continued to develop strongly. There has been wide interest in the insurance intermediaries study, which looked at alternative distribution channels for insurance. Our earlier work on the assistance business (how funerals are paid for) contributed to the National Treasury's decision to set up a task force to look at microinsurance regulation generally. We have been heavily engaged in a multi-country study, funded by Canada's IDRC and Germany's GTZ, to develop global guidelines for microinsurance regulation. We are pleased that the Bill and Melinda Gates Foundation has also agreed to join the study as a co-funder.

Two important housing financial research projects were launched during the year. *The Small Scale Landlords and Home Based Entrepreneurs* study highlighted the huge extent of informal landlordism in SA and the role the home plays in small business activity. The *Causes of Default Among Housing Micro Loan Clients* study confirmed that many housing finance microlenders were competing for clients in the "middle of the pyramid" against the financially much stronger mainstream banks.

We supported the growing international interest in the potential for mobile phone banking. The FinScope™ Mobile Banking study, a partnership with CGAP, the UN Foundation and the Vodafone Group Foundation, explored the barriers to mobile phone use including, for example, problems around technology adoption. We are busy with a three-country study into branchless banking which, together with mobile phone banking, will improve banking outreach in the future.

We have also continued to foreground consumer issues. We supported the Financial Services Board in planning a national strategy for consumer financial literacy. We also started a major study into the mechanisms for consumer recourse in South Africa's financial markets. Effective access should be the precondition to active usage of financial services. But disillusionment with the services provided frequently leads to people leaving the financial system. Effective recourse mechanisms, especially for financially less capable people, may help to ensure that the financial system is better able to retain

consumers whose legitimate grievances can be promptly and appropriately addressed.

Our team remains tight-knit. Amukelani Mahlelo joined at the end of the year to support Andrea van der Westhuizen in her enlarged role as Project Manager and Financial Coordinator. Janet Wilhelm provides us with valuable editorial support. I would like to thank all my colleagues for their hard work during the year. We look forward to expanding our resources in the coming financial year to allow us to tackle effectively the challenge of operating in more countries and across a broader thematic platform.

South Africa continues to offer rich opportunities for the work we do. In the coming year we will be seeking in particular to provide more support to processes surrounding social security and retirement reform, and the Financial Sector Charter. Outside South Africa, we intend to focus less on generating new opportunities for FinScope™ but instead on ensuring that

those countries that have FinScope™ are equipped to use the dataset effectively. With funding for the extension of our mandate confirmed for another three years, it is a privilege to continue supporting financial sector development in Africa.

Mark Napier,
CEO

Johannesburg, June 2007



Tamara Banda



Jeremy Leach



Andrea van der Westhuizen



Amukelani Mahlelo

LIST OF PUBLICATIONS, PAPERS COMMISSIONED AND TALKS GIVEN

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

Table 3: Publications during 2006/7

Document Heading	Author	Published
Access Housing Newsletter: April 2006	Kecia Rust, FinMark Trust	2006/04/01
Consumer trust in the life insurance industry: Is the glass half empty or half full?	Illana Melzer, Eighty20 Consulting	2006/04/12
Financial Diaries Focus Note: Styles and profiles – the connection between livelihoods and financial portfolios of the poor	Daryl Collins, Financial Diaries Project	2006/04/18
Housing supply and functioning markets: Overview of recent Banking Association research	Matthew Nell, Matthew Nell & Associates	2006/04/20
How low can you go? Charting the housing finance access frontier: A review of recent demand and supply data	Illana Melzer, Eighty20 Consulting	2006/05/02
Financial access and financial stability – irreconcilable differences?	Mark Napier, FinMark Trust	2006/05/05
Press release: Tax policy innovation to support private investment in small business	Mark Napier, FinMark Trust	2006/05/16
Let "business angles" work their miracle	Mark Napier, Business Day article	2006/05/23
Study into tax Incentives for private investors in small businesses	ECI Africa (Pty) Ltd	2006/05/25
Working Paper: South Africa's township residential property markets – home ownership and entrepreneurship	Mark Dinner, Student	2006/05/25
Resource Report 6: Research into landlords in townships	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Resource Report 5: Research into landlords in inner cities	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Resource Report 4: Literature review on home-based entrepreneurs	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Resource Report 3: Literature review on entrepreneurship, housing and housing finance	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Resource Report 2: Literature review on the financial needs and products available to small scale landlords and entrepreneurs from commercial banks	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Resource Report 1: Literature review of small scale landlords	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Research Report: Consolidated analysis of research into small scale landlords and home based entrepreneurs	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Small Scale Landlords: Research findings and recommendations	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Resource Report 5: Annexure A – Results of a survey among landlords and tenants with rental units in two city areas	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/05/29
Presentation on the Financial Services Access (GIS) database	Darrell Beghin, FinMark Trust	2006/06/01
Access Housing Newsletter: June 2006	Kecia Rust, FinMark Trust	2006/06/01
Brochure: Small Scale Landlords	Kecia Rust, FinMark Trust	2006/06/02
Case studies on FinScope™	Various, FinMark Trust	2006/06/02
The access frontier as an approach and tool in making markets work for the poor	David Porteous, Recap Advisors	2006/06/12
Financial Diaries Focus Note: Financial decisions and funeral costs	Daryl Collins, Financial Diaries Project	2006/07/07
Facilitating South African remittance networks	Genesis Analytics (Pty) Ltd	2006/07/25
The new regulator's dilemma	David Porteous	2006/07/31
Botswana small and medium enterprise underbanked market research report	Enterprise Banking Group	2006/08/01
Botswana small and medium enterprise underbanked market research report – Annex 3	Enterprise Banking Group	2006/08/01
Botswana small and medium enterprise underbanked market research report – Annex 4	Enterprise Banking Group	2006/08/01
Access Housing Newsletter: August 2006	Kecia Rust, FinMark Trust	2006/08/01
Press release: Botswana's small businesses held back by lack of financial services	Enterprise Banking Group	2006/08/30

Document Heading	Author	Published
Request for proposals: Micro-insurance regulation and supervision project – Country studies	Jeremy Leach, FinMark Trust	2006/09/01
Lending successfully to construction entrepreneurs: Nurcha's innovative programme	Cedric de Beer, Nurcha	2006/09/14
Access Housing Newsletter: October 2006	Kecia Rust, FinMark Trust	2006/10/01
Press release: Causes of default among housing micro-loan clients	Kecia Rust, FinMark Trust	2006/10/17
Causes of default among housing micro-loan clients	Siana Strategic Advisor (Pty) Ltd & Michael Greeff Business Consulting CC	2006/10/17
Executive Summary: Causes of default among housing micro-loan clients	Kecia Rust, FinMark Trust	2006/10/17
Causes of default among low-income housing micro-loan clients	Roland Pearson, Siana Strategic Advisors & Mike Greff, Mike Greeff Business Consultants	2006/10/17
Exploring access to short-term insurance in SA using the access frontier methodology	Illana Melzer, Eighty20 Consulting	2006/10/31
Brokering change in the low-income market: Threats and opportunities to the intermediation of microinsurance in South Africa	Genesis Analytics (Pty) Ltd & Enterplan	2006/10/31
Press release: Charting the housing finance access frontier	Kecia Rust, FinMark Trust	2006/10/31
Press release: Home based entrepreneurs	Kecia Rust, FinMark Trust	2006/11/02
Home Based Entrepreneurs booklet	Kecia Rust, FinMark Trust	2006/11/02
Research Report 10: Research into home based entrepreneurs	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/11/02
Research Report 11: Research into successful entrepreneurs	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/11/02
Research Report 12: Research into service providers in respect of entrepreneurs	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/11/02
Consolidated analysis of research into small scale land lords and home base entrepreneurs	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/11/02
Home based entrepreneurs: research findings and recommendations	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/11/02
Research Report 3: Literature review on entrepreneurship, housing and housing finance	Shisaka Development Management Services (Pty) Ltd in Association with CSIR Built Environment	2006/11/02
Distribution of micro-insurance through retail outlets: South Africa case study	Genesis Analytics (Pty) Ltd	2006/11/06
Mobile banking: Implementation choices: Working draft	Jenny Hoffman, Risk Frontier Consultants	2006/11/13
Housing finance and the role of government: Incentives without distortions	Marja C Hoek-Smith, International Housing Finance Program	2006/11/16
Brochure: Access to finance for women entrepreneurs in South Africa – challenges and opportunities	IFC (International Finance Corporation), FinMark Trust & the dti	2006/11/21
Press release: New survey sheds light in small business sector	FinMark Trust & Research Surveys	2006/11/21
Press release: IFC launches SME banking program with Swiss funding	IFC	2006/11/22
Press release: New survey sheds light on small business sector	Janet Wilhelm, FinMark Trust	2006/11/22
Financial Diaries Focus Note: Housing	Daryl Collins	2006/11/24
Press release: More get bank accounts but SA financial divide persists: FinScope™ 2006	FinMark Trust and Research Surveys	2006/12/04
Press release: Chequing out banking	FinMark Trust and Research Surveys	2006/12/04
Press release: Debt – how far in the red are South Africans?	FinMark Trust and Research Surveys	2006/12/04
Press release: Mzansi – an amazing success so far	FinMark Trust and Research Surveys	2006/12/04
Press release: Huge untapped market for savings products	Anne-Marie Chidzero, FinMark Trust	2007/01/25
Access to savings in LSMs 1–5	Illana Melzer, Eighty20 CC	2007/01/29
Market research on financing construction entrepreneurs	D Gardner, Nurcha	2007/01/31
The National Credit Act and its regulations in the context of access to finance in SA	R P Goodwin-Groen	2007/01/31
Access Housing Newsletter: Issue 5, January 2007	Kecia Rust, FinMark Trust	2007/02/02
Just how transformational is mobile banking?	Dr David Porteous, Bankable Frontier Associates LLC	2007/02/28
Analysis of South Africa's housing sector performance	Kecia Rust, FinMark Trust	2007/03/06
Press release: Insuring a brighter future	FinMark Trust & TNS Research Surveys	2007/03/06
Press release: Cellphone bank transforms the unbanked into banked	FinMark Trust	2007/03/15
Access Housing Newsletter: Issue 6, March 2007	Kecia Rust, FinMark Trust	2007/04/12

Table 4: Presentations during 2006/7

Date	Audience/ Venue	Title
04/04/2006	Botswana Forum	Technology and access to banking
24/04/2006	Africap Workshop on HIV/AIDS	Turning threats into opportunities: Providing client responsive products for client risk management
25/04/2006	Africap Workshop on technology	Opportunities around mobile banking
05/05/2006	SA Reserve Bank	Financial access and financial stability – irreconcilable differences?
15/05/2006	Barclays African Microfinance Workshop	Technology and access to banking
15/05/2006	Barclays Microfinance Workshop	Understanding housing finance needs in Sub-Saharan Africa: Identifying opportunities for Barclays
18/05/2006	LOA/SAIA Microinsurance conference	Regulator's dilemma
23/05/2006	Vodacom Workshop Credit and Money Transfer EMAB	Towards an enabling environment for mobile banking in Africa
30/05/2006	Research Launch Johannesburg	Small Scale Landlords as Housing Entrepreneurs
30/05/2006	World Bank/Brookings Institution, Washington DC	FinScope™ – commercial and policy impact
1-2/06/2006	Colloquium: Are Hernando de Soto's views appropriate to alleviating poverty in SA?	Supporting the housing asset triangle: South Africa's real housing challenge
06/06/2006	UN conference on financial inclusion, Dakar	Financial inclusion
09/06/2006	Financial Services Consumer Education Review Committee	State of play of consumer financial literacy in South Africa
30/06/2006	Commonwealth Secretariat workshop on remittances	SADC remittances – the regulatory obstacles
27/07/2006	Metropolitan Board strategy session	Insurance: Is there a fortune at the bottom of the pyramid?
31/07/2006	Springfield Centre	M4P training
26/08/2006	LOA Annual Convention	Improving access to insurance through innovation
31/08/2006	Presentation to government	Rental housing in South Africa: an overview
04/09/2006	Moneygram	Remittances in Southern Africa (with Sarah Truen, Genesis)
16/09/2006	Workshop on access to SME finance	Improving access to SME finance
11/10/2006	Old Mutual Retirement Reform Conference	Catching the scent of an inclusive financial market?
17/10/2006	FinMark Forum	Causes of default among housing micro loan clients
18/10/2006	Savings Institute Symposium	Savings, Mzansi and the changing landscape of access
18/10/2006	IFC FinNet meeting, Washington DC	FinScope™ – a tool for M&E
20/10/2006	IAIS Annual Conference	The Regulator's Dilemma
24/10/2006	Forum for the Future Seminar, London	Pyramids and frontiers of finance: measuring access to finance
25/10/2006	Microfinance Club, London	Building inclusive financial markets in Africa: charting the frontiers of access to finance
31/10/2006	SAFSIA	Challenges and opportunities facing intermediaries
01/11/2006	Research launch, Nedbank	Home based enterprises as housing entrepreneurs
06/11/2006	AVCA conference, Dakar	Tax incentives to support investment in small businesses
07/11/2006	IRR conference	Solidifying the insurance industry's commitment to consumer education
08/11/2006	Launch of FinScope™ Zambia, Lusaka	FinScope™ Zambia findings
13/11/2006	2006 Annual Small Business Summit, Department of Trade and Industry, Cape Town	Home based entrepreneurs: sustainable livelihoods and SMME growth
17/11/2006	Presentation to government	Analysis of South Africa's housing sector performance
21/11/2006	Munich Re Foundation Microinsurance conference	Commercial opportunities in micro-insurance (opening speech)
21/11/2006	Launch of FinScope™ Small Business	FinScope™ Small Business findings
05/12/2006	National Housing Research Seminar	Research area: Funding and BNG
12/02/2007	IAIS Triannual conference – Dubai	Insurance regulation country case studies
15/03/2007	FinMark Forum	Launch of FinScope™ Mobile Banking Pilot
30/01/2007	BankSeta Workshop: Lender Education Project Focus Group	Overview of the [housing finance] client target market
06/03/2007	World Bank roundtable on making finance work for Africa	Obstacles to access
14/03/2007	ComMark seminar on making markets work	Making Financial Markets Work for the Poor
15/03/2007	Micro-Enterprise & Development Institute – Southern Africa	Access to affordable and appropriate housing finance: key issues facing practitioners
15/03/2007	National Consumer Forum conference	Consumer Financial Empowerment – access for consumers

Table 5: Forums during 2006/7 – Botswana

Date	Topic	Speaker(s)
04/04/2006	Technology and access to banking: Opportunities in Botswana	Jose Ferreira, & Mascom Wireless
04/04/2006	WIZZIT: My bank in my pocket	Brian Richardson
04/04/2006	Technology and access to banking	Jeremy Leach
17/10/2006	Botswana small and medium enterprise underbanked market research commentary	Dr T C Matsheka
17/10/2006	Effective Support for SMEs	Peter Hinton

Table 6: Forums during 2006/7 – Namibia

Date	Topic	Speaker(s)
20/06/2006	Access standards: Lessons from South Africa	Dr Penelope Hawkins
20/06/2006	Financial Services Charter Committee	Gida Sekandi
20/06/2006	Financial access charter: International perspective	Anne-Marie Chidzero
05/03/2007	Access to financial services in Namibia: Indicators and trends from FinScope™	Christiaan Keulder

Table 7: Forums during 2006/7 – South Africa

Date	Topic	Speaker(s)
28/03/2006	Charting the housing finance access frontier. A review of recent demand and supply side data	Ilana Melzer
20/04/2006	Housing supply and functioning markets: Overview of recent Banking Association research	Matthew Nell
13/06/2006	Insurance intermediation for the mass market: New models, new threats or new opportunities	Doubell Chamberlain
05/07/2006	Tax policy innovation to support private investment in SME's	Mark Napier/ Neil Brislin
14/09/2006	Lending successfully to contraction entrepreneurs: Nurcha's innovative programme	Cedric de Beer
23/01/2007	The savings market: Assessing the barriers, costs and potential	Bridget Lamont / Ilana Melzer
21/02/2007	Long-term contractual savings products: Do they offer value at the bottom of the pyramid?	Rob Rusconi
13/03/ 2007	FinScope™ Small Business Gauteng Survey: Scoping the financial needs of small businesses	Judi Hudson

CO-FUNDED GRANTS AND PROJECTS

 	<p>Case studies exploring “the fortune at the bottom of the financial pyramid in Africa”</p> <p>To prepare around 25 case studies on formal sector financial innovation in African financial markets. The book's purpose is to show that the formal financial sector can engage profitably with consumers at the bottom of the pyramid in Africa; to encourage other providers to enter these markets; and to encourage the adaptation of new techniques.</p> <p>January 2007 to end 2007</p>
	<p>FinScope™ Focus Groups in Lesotho</p> <p>To conduct nine focus group meetings in designated areas in Lesotho to collect primary source information, analyse the data and produce a report on the findings.</p> <p>January 2007 to July 2007</p>
   	<p>FinScope™ Mobile Phone Banking</p> <p>The goal of the project was to better understand the profile of lower-income mobile phone banking users and non-users in South Africa, and factors that affect customer adoption of this type of service.</p> <p>August 2006 to March 2007</p>
	<p>Access to saving services by low income households in South Africa</p> <p>Phase one of the above study was to use the Savings Assessment Framework and Savings Assessment Tool as guidelines to prepare the landscape of savings in South Africa based on FinScope™ and financial diaries data.</p> <p>July 2006 to January 2007</p>
     	<p>FinScope™ South Africa 2006</p> <p>FinScope™ is an initiative aimed at researching the financial behaviour of South and Southern African citizens. The survey's intention is to build dynamic financial market development, by affording focus to drive product innovation.</p> <p>April 2006 to November 2006</p>     

 <p>The research is the result of a project supported by Canada's International Development Research Centre (www.idrc.ca)</p>  	<p>Expanding access to insurance for the poor</p> <p>To understand the role of policy, regulation and supervision of microinsurance and enhancing access to insurance services for the poor.</p> <p>March 2006 to June 2008</p>
	<p>FinScope™ Ghana Scoping Mission</p> <p>To provide technical assistance to Ghana's Ministry of Finance and Economic Planning to establish the feasibility of conducting the FinScope™ survey tool developed by FinMark Trust and to be adapted to Ghana.</p> <p>January to April 2006</p>
 	<p>FinScope™ Nigeria Scoping Mission</p> <p>To meet with a range of financial sector stakeholders and establish the feasibility of conducting the FinScope™ study of financial product usage and behaviour in Nigeria that would support changes in the financial sector towards making financial markets work for the poor.</p> <p>November 2006 to February 2007</p>
	<p>FinAccess study in Kenya</p> <p>To provide technical assistance to the Access to financial services demand study – International Social Research Specialist project based on the FinScope™ survey tool and adapted for Kenya.</p> <p>March 2006 to June 2008</p>
	<p>FinScope™ Pakistan Scoping Mission</p> <p>To meet with a range of financial sector stakeholders and establish the feasibility of conducting the Access to Finance Study in Pakistan.</p> <p>June 2006</p>
	<p>FinScope™ Tanzania 2006</p> <p>FinMark Trust provided technical input to implement a consumer perception survey based on the FinScope™ survey tool and adapted for Tanzania.</p> <p>May 2006 to April 2007</p>
	<p>FinScope™ Uganda 2006</p> <p>To provide technical assistance to the implementation of the FinScope™ market survey based on the FinScope™ survey tool and adapted for Uganda.</p> <p>April 2006 to June 2007</p>



FINMARK TRUST WOULD LIKE TO THANK
ALL THE SURVEY RESPONDENTS FOR THEIR
PARTICIPATION AND VALUABLE INPUT



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