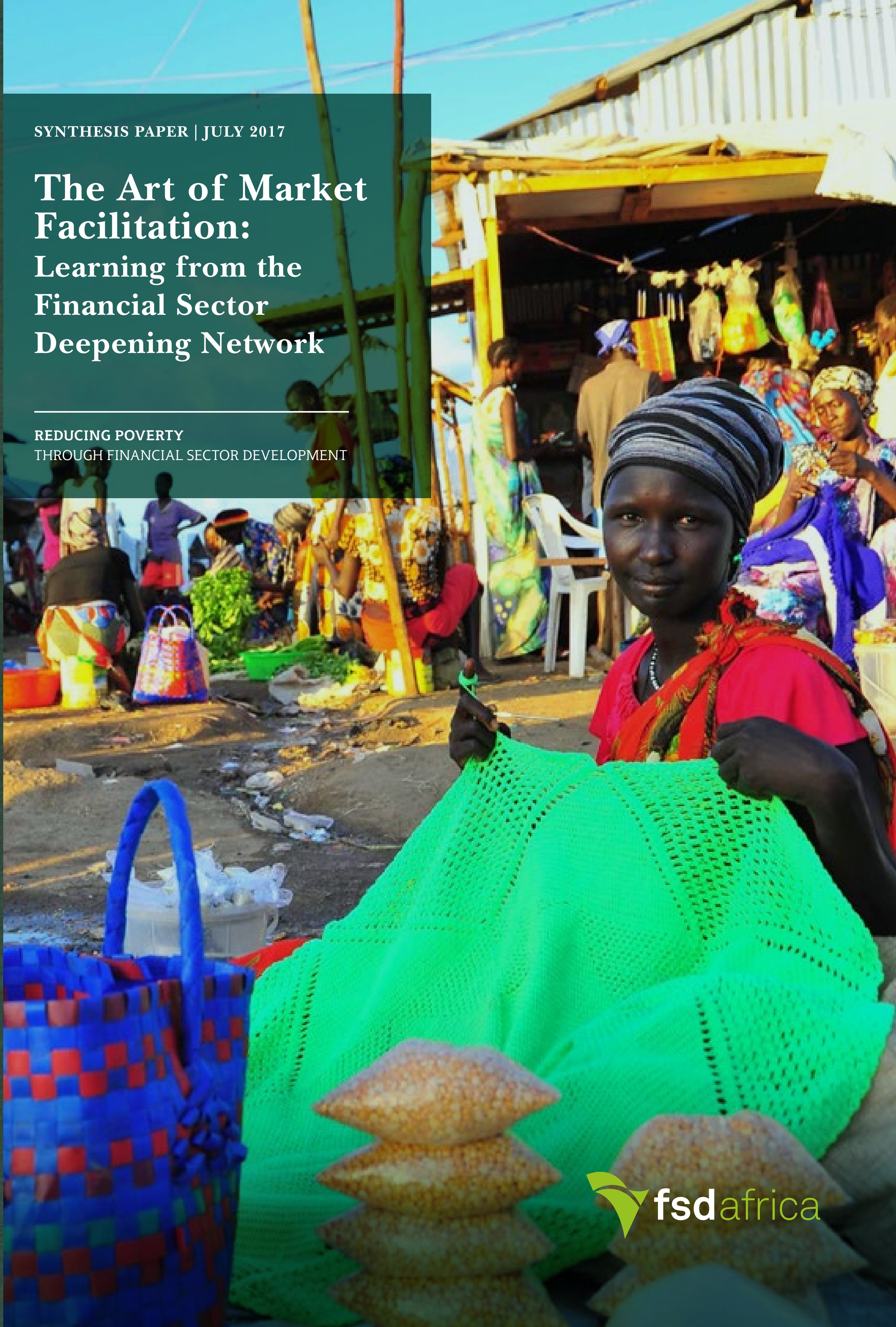

SYNTHESIS PAPER | JULY 2017

The Art of Market Facilitation:

Learning from the Financial Sector Deepening Network

REDUCING POVERTY
THROUGH FINANCIAL SECTOR DEVELOPMENT

fsdafrica

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The Art of Market Facilitation:

Learning from the Financial Sector Deepening Network

BY: JOANNA LEDGERWOOD

Foreword

Market facilitation (M4P) is an approach to promote systemic change—change that goes beyond individual players and that is relevant to the wider environment, affecting many. Market systems development requires that organisations play a facilitating role. Standing outside of the market system, facilitators work with different players within the system, to make it work more effectively. Their essential role is active and catalytic, to enable others to do rather than do themselves—stimulating changes in a market system without becoming part of it.[1]

Understanding this concept and applying it in market systems development initiatives is no mean feat. Market facilitators, donors and practitioners must draw from a wide range of tools and techniques to put market facilitation into practice. Developing and maintaining partnerships, managing risks, deploying flexible intervention tactics, establishing a measurement system and communicating effectively are all useful learning points for those working in this field. Knowing when to exit an intervention is just as critical as identifying and selecting the right partners to work with and understanding these complexities can have an impact on the effectiveness of interventions. Market facilitation as a practice is more of an art than a science, directed by principles rather than lists of actions, which can make it difficult to translate the theory into practice.[2]

There is limited evidence from the field on how to apply this approach in a way that ensures interventions are both scalable and sustainable. In June 2015, FSD Africa commissioned the Springfield Centre to produce: a) one comprehensive case study of FSD Kenya—a financial market facilitation agency in Nairobi, Kenya; and b) six mini-case studies of financial market facilitation interventions from the wider FSD Network, by the FinMark Trust, FSD Kenya, FSD Tanzania and FSD Zambia. The aim of this process was to build the knowledge base around the art of market facilitation in the field. These case studies revealed a lot of insights about effective market facilitation, the challenges the Financial Sector Deepening (FSD) Network faced while designing and delivering interventions using the M4P approach and the lessons they have learned so far.

The M4P synthesis paper (this document) explores the art of market facilitation in action through the lens of the FSD network and synthesises learnings gained from these case studies to build understanding around the M4P approach. The paper examines the wider lessons and challenges that emerge for organisations addressing the dilemmas of developing financial markets for the poor and how they differ significantly from other conventional approaches.

I hope that you find the learnings in this synthesis paper useful and that they shed some light on your path to effective market facilitation.

Marion Kimani

Assistant Manager, Regional Strategies
FSD Africa

[1] A Synthesis of the Making Markets Work for the Poor (M4P) Approach, 2008, DFID &SDC p.32
[2] Market Facilitation in Practice: Case Studies for Implementers, USAID, Oct 2011, p.1

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1. Introduction

The Making Markets Work for the Poor (M4P) or 'market systems' approach recognises that, often, poorly functioning market systems—those that are uncompetitive and unresponsive to consumer and producer needs—have a disproportionately negative impact upon the poor. To address this, the M4P approach identifies the underlying causes of why markets are not working for the poor and, in response, intervenes to address critical constraints in the market system to facilitate change that will sustainably improve the lives of poor people.

> The market systems approach provides an appropriate framework and guidance for intervention, and sets a level of ambition (changing market systems) that matches the high ideals of international development. A narrower, more prescriptive, more delivery-oriented remit greatly reduces impact.

This paper synthesises what has been learned by the Financial Sector Deepening (FSD) Network,[3] as captured in seven case studies written by the Springfield Centre.[4] Six of the seven case studies focus on a specific intervention carried out by a branch of the FSD Network, as follows:

- **FSD Tanzania's** work in developing the capital market for SMEs
- **FSD Zambia's** support for the development of the insurance market
- **FinMark Trust's** work on information sharing through FinScope
- **FSD Kenya's** work in:
    - Development of M-Shwari
    - Capacity building of Savings and Credit Cooperatives (SACCOs)
    - Expanding Savings Groups.

The seventh case study is much more comprehensive (and longer) than the other six. It examines FSD Kenya's role and experience in facilitating inclusive financial markets in Kenya during its first ten years (2005-2015), documenting the success and challenges of FSD Kenya's work to date.

Each of these case studies provide useful learning for all FSDs as well as other practitioners and organisations or programmes that currently implement (or plan to implement) the market systems approach.

The purpose of this paper is to provide guidelines on some key, practical questions facing facilitators, based on synthesised learnings from the FSD Network as identified in the seven case studies. Because the case studies cover a limited amount of activity within the FSD Network, the paper does not provide detailed guidance on all issues related to facilitating financial markets, specifically because not all pertinent issues are raised in the case studies. It is thus not a comprehensive operational guide to financial market facilitation.[5]

This paper is intended as a primer for new staff and as a reference for those working for an FSD or other financial market facilitation programme. The primary audience is management and staff, as well as governance bodies, of FSD organisations or other market development programmes working in financial services. While it may also be useful for donors who fund, or are considering funding, market facilitation programmes, the paper does not focus on donors as a primary audience as it draws from the experience of FSDs facilitating M4P as documented in the case studies and not the experience of donors funding M4P efforts. It thus does not attempt to address funding objectives and challenges other than from an FSD perspective.

The paper is organised into four high-level groupings of questions or statements highlighting primary considerations for effective facilitation. These are:

1. The basics of effective market facilitation
2. The need for independence, technical rigour and credibility
3. Identifying the right partners and developing sustainable interventions
4. The imperative of monitoring market system change and responding effectively

This is followed by a final section of topics covering some of the inevitable tensions and challenges that arise when facilitating financial market development.

[3] The FSD Network is a group of ten financial sector development programmes or 'FSDs'. It is located across Sub-Saharan Africa, and includes eight national FSDs (Access to Finance Rwanda, Enhancing Financial Innovation and Access in Nigeria, Enterprise Partners Ethiopia, FSD Kenya, FSD Moçambique, FSD Tanzania, FSD Uganda, FSD Zambia) and two regional FSDs (FinMark Trust in Southern Africa, FSD Africa).
[4] http://www.fsdafrica.org/search/?select-post_type%5B%5D=case-study&hidden-s=&hidden-current-page=1
[5] For a more detailed 'how-to' guide for market facilitation, the reader is referred to the Springfield Centre's 2015 report, 'Operational Guide for the Making Markets Work for the Poor (M4P) Approach' (2nd edition), funded by SDC & DFID. It can be found at http://www.enterprise-development.org/wp-content/uploads/m4pguide2015.pdf

The paper is intended as a reference document; as such, individual topics within each grouping follow no particular order.

Text and examples from the case studies are provided throughout the paper to illustrate various points. In many instances, direct text from the case studies is repeated (but not cited) in the paper to provide generic learning and good practice. To illustrate the learning and good practice, detailed examples from the case studies, specific to individual FSD experience, are included as boxes. In addition, key learning points from various FSDs are highlighted in small text boxes throughout, but have been anonymised to allow a focus on lessons learned rather than the context of individual FSDs. Given there is only one comprehensive case (FSD Kenya), and three of the six shorter cases studies also examine experience of FSD Kenya (as the oldest FSD in the network), many of the examples and the bulk of learning comes from FSD Kenya; other experience is brought in as applicable.[6]

While it is not necessary for the reader to have read the individual case studies, it is assumed the reader has a working knowledge of the M4P approach and the FSD model.

[6] While the paper draws almost exclusively on learnings described in the case studies, some additional experience is included based on discussion with FSD management and the author's own experience.

2. Basics for effective market facilitation

The market systems approach posits that for the financial system to be inclusive, a variety of functions must be efficiently and effectively performed by different market actors:

1. the core functions of demand and supply (consumers and providers)
2. the supporting functions that shape, inform and enable transactions between consumers and providers
3. the rules and norms governing both the core and supporting functions

A functioning and inclusive financial system is one that is characterised by strong and sustainable performance in the core, demonstrated by size and outreach, depth and quality (poverty levels and the degree to which services meet consumer needs), and capacity and competence of rules and supporting functions, allowing the market to learn, adapt and develop in a sustainable manner.

When taking a market systems approach, development organisations such as those in the FSD network act as facilitators of market development—external change agents whose role is to develop actors in the market system to increase financial inclusion. While facilitators work in a variety of ways, their primary role is to address constraints, in order to allow and facilitate the market system to function more effectively and inclusively. Facilitation is therefore a public role (not a commercial one); it is a temporary role (it is time-bound); and it requires understanding of the market system and the capacity to intervene with appropriate resources (financial, human and political). While in the short- to medium-term the facilitator role may involve a number of activities—including direct roles in the market if required—in the longer term, the strategic purpose of facilitation is not to have any continuing role in the market system.

2.1 Systemic change requires sustainability and scale

Making markets work for the poor is about creating the foundation for lasting change where the market system—its functions and players—are equipped to meet future challenges and continue to meet the changing needs of the poor. The result is sustained impact, rather than impact that is short-lived or dependent on further injections of aid. If sustainability is not considered in the context of the market system—the functions and players and 'who does and who pays' in the future—sustainability analysis is not made real and interventions will not succeed. For change to be sustainble when working with the private sector, sufficient returns must be provided at an acceptable level of risk relative to other options, such that it is in the interest of the market actor to continue providing the service (and usually expand provision) without continued subsidy. For public sector and not-for-profit actors, change must achieve other objectives such as meeting constituent needs, reducing sytemic risk, or providing increased social benefits. Key to sustainability is the capacity of market actors to continue to deliver the service without ongoing support.

Similarly, acheving systemic change requires scale; the M4P approach explicitly aims to reach large numbers of poor. For change to reach scale, the market system as a whole needs to work better—more transactions need to take place in the core, and more poor people need to benefit. This often means more poor people using financial services and in this case, an "underlying business model that can be delivered to large numbers of people at the Bottom of the Pyramid, at a price the poor can afford and a return that continues to make sense for the provider, is required."[7] Scale may also come from larger businesses accessing more financial services, resulting in benefit to the poor as labourers or producers. It is this wider view of the role of financial services in the economy that must be considered when looking at scale and sustainability.

[7] Davies, Gareth. Getting to Scale: Lessons in Reaching Scale in Private Sector Development Programmes, June 2016, Adam Smith International.

Getting to scale

FSD Kenya has worked with various retail banks, but Equity has by far been the most important. Equity had been a building society which, from the 1990s, had started on a process of change, aimed at the underserved mass market. Learning lessons from emerging MFI experience, it was the first bank to recognise the potential value of being more customer-driven (rather than product-led) in this market, and its ambition and willingness to learn marked it out as an obvious partner.

For Equity, this was not a 'traditional' donor project. FSDK's longevity in the market, coupled with the recognised knowledge of its staff, afforded it genuine insights and credibility that encouraged the development of a collaborative and flexible relationship. In 2015, six to seven years after the capacity building effort finished, Equity was one of the largest banks in Kenya with assets in excess of USD3 billion, 7,000 staff, a branch network in excess of 130 and a customer base of ten million. Given its drive and capability, there's little doubt it would have grown and been successful without this capacity building effort, but not at the same pace, nor with the same level of innovation. And the external impact—the wider systemic change—is unlikely to have been as dramatic.

This crowding-in happened because the industry structure was conducive to it—a small number of large, well-resourced banks, concentrated in the capital Nairobi. And through the bank's reported profits, rapid expansion of branches, BoP marketing campaigns and conversations in tightly-knit industry networks, the success of Equity was clearly visible to other banks in the industry, many of which began copying the Equity model. Furthermore, high staff turnover in the banking industry allowed for the poaching of Equity staff which contributed to crowding-in; as did the dissemination of lessons and insights through industry networks and forums.

Source: FSD Kenya Case Study, p. 11; Getting to Scale, p. 22.

2.2. Understanding the financial market system

> "The diagnostic process begins by identifying the disadvantages the poor face in a market system (the 'symptoms') and iteratively proceeds into a detailed analysis that explains the continued existence of these disadvantages (the 'root causes'). Market systems are complex, so locating root causes can be difficult and time-consuming, but ceasing the diagnostic process too soon can result in programmes exerting their intervention efforts in the wrong places: dealing with symptoms but not their underlying causes."[8]

Market facilitation begins with market analysis—understanding how market systems are structured and identifying the main functions and rules, as well as the different market players and how they fit within the market system. Good market analysis seeks to identify the underlying causes for why the system is not sustainable and segments of consumers are excluded—that is, 'why market actors behave the way they do'—and to identify current roles filled by development actors. Understanding how the market system encourages (or does not encourage) transactions for poor consumers and small businesses helps market facilitators to determine where and how to intervene to catalyse improvements that will have the greatest and most durable impact on improving livelihoods.

Market knowledge and insight—information, advice, expertise and contacts—is a crucial part of what facilitators bring to individual discussions and to potential partners. Facilitators must have a deep understanding of the financial market and its context, and be able to answer basic M4P operational questions, such as:

- What is stopping the supply side from offering appropriate services?
- Why doesn't the demand side use the services?
- What support functions need strengthening to support increased use of services by the poor?
- Do current policies and regulations support or hinder increased financial inclusion?
- How do informal rules affect market behaviour?
- How does the overall economic context affect inclusion?

[8] Springfield Centre, Operational Guide for the Making Markets Work for the Poor (M4P) Approach, 2nd edition, 2015, p. 7.

In addition to the broader financial market system, facilitators must also analyse and understand 'interconnected systems'. Understanding how interconnected systems affect each other and monitoring how they change is a necessary and fundamental aspect of intervention and effective facilitation.

Understanding the market system also requires the facilitator to understand the political economy. As the Springfield Centre states, "Political economy and power is a central consideration in market systems analysis and intervention. Effective facilitation requires detailed understanding of political economy factors at both macro (sector) and micro (market player) levels; it is essential to understand the formal and informal operations of market systems, why market players act as they do and the incentives they have to change or resist change."[9]

Political economy exists in every market context but in some, the constraints emerging from the political economy and the influence on behaviour and efforts to catalyse change can be severe. Although it may seem that socio-political and economic issues have less validity and relevance than technical issues in the financial sector, from an M4P perspective, understanding the market requires facilitators to identify the main constraints no matter what their nature, including all dimensions that influence market behaviour. If the ultimate desired impact is to alleviate poverty and create more opportunities for economic growth, it is important to design interventions with consideration of the desired impact on the 'real economy', in addition to increasing financial inclusion.

Whether facilitators should engage in seeking to bring change to the political economy, and the incentives that stem from this, is not always clear. The critical issue, as with all interventions, is whether facilitators have the right mandate, skills and organisational capacity to do so, and if they do not, can meaningful change be brought about by engaging solely on technical, capacity, information and other non-political issues?

Facilitating the market for SACCOs and the role of the political economy

In 2005, SACCOs (Savings and Credit Cooperatives) were seen by FSD Kenya to be an important financial service provider for the poor. Membership-based, not-for-profit organisations embedded strongly in Kenyan society, an estimated 3,200 SACCOs had approximately 1.6 million members. However, serious constraints in relation to financial management, internal systems and governance were common, with the majority likely to be in a position of technical insolvency after adjustment for non-performing assets.

From 2006 to 2010 FSD Kenya invested USD2.3 million in SACCO capacity building, but by 2010 recognised that this hadn't worked. Working with individual SACCOs at best produced isolated pockets of excellence, but there was no spread beyond these. Despite regulation in 2008 leading to tighter rules (particularly around capital adequacy and liquidity ratios and governance), SACCOs showed little inclination to change. In 2010, FSD Kenya designed a new batch of support aimed both at strengthening the SACCO regulator and providing a broader approach to capacity building (worth USD0.6m). This time there was less emphasis on direct individual SACCO capacity building and more concentration on the development of a series of narrower, more practical training programmes, and a market for both training (from the Cooperative College of Kenya) and consulting services (from individual providers).

The overall results of this series of interventions, like the first, were disappointing. In 2015, an external review of the SACCO sub-sector and of FSD Kenya's role within it reported little positive change. It also found that, despite other benefits, SACCOs that had gained from direct capacity building were just as likely to be non-compliant with regulations as others. Demand for training and capacity building from SACCOs was weak.

Significantly, the analyses of the SACCO sector failed to take sufficient account of the political economy. Instead, the focus was on a technical solution to what was seen as a technical problem, but this underestimated the dynamics between SACCO members and their management, or between SACCOs and the regulatory authorities. These dynamics explain much about the response of the sector to efforts to enhance the regulation of SACCOs and why those efforts have not translated into material changes in the SACCO business model.

Source: FSD Kenya SACCOs Case Study, pp. 11-12.

[9] Springfield Centre, Operational Guide, p. 4.

2.3 What characteristics do facilitating organisations need to be effective?

To determine the best form for a facilitating organisation, it is useful to consider what characteristics are required from an institutional perspective to best allow for effective market facilitation.

The market systems approach is about sustainably changing the underlying dynamics and structure of the financial market system to enable it to be more inclusive. Facilitators aim to change the mindsets and practices of financial service providers, consumers, regulators, supervisors and other market actors. However, financial systems are not only complex, but also dynamic and unpredictable. A systemic approach recognises this by accepting uncertainty and incorporating flexibility in the design and implementation of interventions. Intentional experimentation and adaptation are necessary and facilitators engage with a variety of market players, entering into and exiting partnerships as the need arises, adapting strategies based on new information, and using funding opportunistically to spur innovation. Market changes may take many years to manifest.

> Facilitators require flexibility to respond appropriately to constraints revealed through analysis and should have few limits over what can be done with partners. They need the strategic and operational structure—the mandate, procedures, decision-making structures etc.—to intervene in a range ways, and to act quickly and flexibly. This is very difflcult to determine in advance.

To be an effective facilitating organisation, the following key characteristics are required:

- **Responsiveness:** ensuring systems are in place for efficient planning and decision making, allowing facilitators to react quickly when opportunities arise or to address roadblocks that other, less nimble organisations cannot
- **Flexibility:** avoiding the need to define activities in advance; given the dynamic and unpredictable nature of market change, allowing freedom to adapt interventions in the light of new opportunities and experience
- **Focus on outputs/achievements:** rather than focusing on prescribed activities and 'deliverables', accountability should focus on overall objectives with the means to achieving these kept open
- **Long-time horizon:** recognising the intractable nature of some market constraints and the importance of change processes being owned by local actors, a planning framework should be put in place which allows potentially longer-term engagements
- **Credibility and independence:** drawing on sound technical competence, allowing close and influencing relationships to be formed with key organisations and individuals
- **A range of tools:** the ability to influence and engage in partnerships in a variety of ways depending on the need and circumstances of the constraint and market actors involved
- **Efficiency:** allowing the greatest proportion of resources to be concentrated on the facilitation tasks of M4P

Given this, traditional 'projects' implemented by a contractor for a specific period of time, with specific outputs, funded through 'accountable grants' from one donor (or possibly two), are not always conducive to market facilitation. Instead, a special purpose vehicle (SPV) established locally as a trust, a company limited by guarantee, or a non-governmental/civil society organisation (NGO/CSO) funded by several donors through 'contributions' to a pooled fund, potentially fit facilitator needs better.[10]

An SPV allows an alignment of incentives between the facilitator and funder around long-term development impact. Having a long-term perspective and presence allows facilitators the flexibility to work with partners that may not move as quickly as originally believed, and also allows flexibility when tackling a retractable issue that is inherently long-term in nature. Projects, on the other hand, are generally 'packages' of activity and resources for a finite period, typically three to five years. Their potential to embark on market change that might exceed this timeframe and require more flexibility would, inherently, be restricted. Performance incentives for projects where contractors are required to achieve certain targets with a certain predetermined timeframe established at the beginning of the project through a logframes are often antithetical to market development. This means projects are often unable to be opportunistic and flexible to market realities.

The SPV structure, established as a local organisation, is grounded in the local milieu and embedded in the market context. This allows for credibility, expertise and relationships to build; all important for successful interventions. Alternatively, contractors and their personnel are more likely to be branded as donor projects and be considered short-term, if generous, 'intruders' in a market. SPVs also have lower overhead costs than foreign-based contractors, allowing for increased efficiency and greater funding available for facilitation.

[10] Although there are risks with SPVs as well; being local organisations with local staff, there is a danger facilitators established as SPVs do not see themselves as temporary.

An appropriate form for facilitation

To a large degree, the original reasons for setting up FSD Kenya as an independent trust have been endorsed. The different hypotheses advanced, for example, in relation to benefits from programming flexibility, incentive alignment, longevity and efficiency, have largely been realised in practice. And while it might have been possible to implement FSD Kenya with a different structure, it would have been much more difficult than as a trust.

Source: FSD Kenya Case Study, p. 45.

However, form is not a panacea; it does not guarantee funding or finding and developing the right personnel. But SPVs may be attractive to donors who want to join other funders rather than fund a series of projects, and may enhance the chances of attracting and developing good people by offering a platform (timeframe, opportunity, scope, rewards)[11] for 'good work for good people', which is theoretically better than is possible in standard projects. That said, it sometimes proves difficult to establish a local organisation and to find the right governance structure and members.

2.4 Effective tools and activities for market facilitation

Facilitators require a range of instruments when engaging with partners and other stakeholders. A broad menu of potential instruments needs to be available. In practice, interventions are likely to draw on more than one instrument; these will be tailored to specific partners, and facilitators must be able to change their offer as they move along and as markets change (or do not change) in response to the intervention.

Activities used in facilitation range from skills building for partners/industry stakeholders to guarantee funds to information regarding market opportunities. Activities may be funded directly, i.e. the facilitator engages a training organisation to provide training to industry leaders, or through grants, which in some cases may be structured as returnable grants. Specific activities and/or funding instruments might include:

- **Technical assistance:** 'how to' advice, for example on organisation, management, services, processes etc. When targeted accurately, and of suitable quality, this can be effective, but the converse applies if lacking focus and insight. Technical assistance can vary from short-term inputs, to longer-term engagements to secondments at partner institutions.
- **Skills building:** the focus here is on knowledge and skills, with the same caveats as technical assistance. Skills building may be easier on a group basis with several potential partners. Training might also include exposure visits and awareness raising.
- **Information:** analysis to shed light on specific aspects of the market or particular issues, made available to individual partners or groups, or publicly. Often the challenge is to make this sufficiently specific to stimulate action and behavioural change.
- **Coordination:** an overarching, organisational role in bringing together different market actors for a shared purpose such as common standards or information sharing. Requires detailed market knowledge, strategic vision and credibility to be effective.
- **Events:** information, networking or knowledge development purposes can be served by organising seminars or presentations, usually to complement another activity, e.g. information or coordination.
- **Grants:** direct financial support for agreed items/services, usually designed as a cost-share arrangement. This has the advantage of tangibility, but can be a blunt instrument, and in introducing funding into a relationship, there is greater potential for distortion of partner motivations and behaviour and of the wider signal communicated to the market.
- **Returnable grants:** an option when supporting commercial organisations. Similar to regular grants but an agreement is made up front that if the intervention results in a successful business opportunity and revenue to the organisation, the grant is repaid, normally without interest or any form of return to the facilitator. The purpose of a returnable grant is to catalyse a business opportunity and share the risk while acknowledging that if it works, public funds (that is funding from the facilitator) will be returned.
- **Guarantees:** a commitment to share a portion of financial losses if incurred. The advantage of guarantees is the risk is shared and no funding is provided unless the innovation or pilot fails.
- **Service/organisation set-up and provision:** this type of activist role is possible to justify but is unusual since it involves playing a market function often without a credible view of how this will be sustained, e.g. conducting research or delivering training programmes.

[11] With more resources available (as less is diverted to overhead costs), SPVs have the ability to offer higher rewards if required.

Going beyond grants

In its work to expand the Savings Group sector in Kenya, FSD Kenya did not simply sub-contract its partners to deliver results, as might have conventionally been the case. Instead it used a variety of instruments—research, technical assistance, funding—to influence the thinking and behaviour of its partners. It ensured learning emerged, and was presented, discussed and debated with key stakeholders throughout the process. This influencing approach has been successful in bringing about lasting change.

FSD Kenya has played a range of facilitator roles in pursing the development of a credit information sharing (CIS) system. In 2011, FSD Kenya organised an East African conference at which the benefits of full credit information sharing from wider international experience were highlighted. From then it played a range of facilitator roles in pursuing the development of a CIS system. First, it acted as a coordinator of different players around a common vision, working through a national task force and with 'champions' in each bank. Second, it used support for further legislation on mandating full file sharing as a means of mobilising and focusing the industry. It secured consolidated feedback on shaping regulation and moving this quickly to finalisation. Third, it managed the process of developing an industry association (the CIS Association of Kenya) and defining its role—as an advocate and regulator (with delegated authority from the Central Bank of Kenya)—and its modus operandi. Fourth, it began to develop new services that were considered important for a successful CIS system such as alternative dispute resolution mechanisms.

FSD Kenya's work with the Commercial Bank of Africa (CBA) on developing the M-Shwari product combined research and information provision with technical assistance and financial guarantees—the offer changed over time as the partner's capacities and incentives changed. FSD Kenya's offer fitted the context. What it offers is not determined formulaically in advance.

Source: FSD Kenya Savings Groups Case Study, p. 14; FSD Kenya Case Study, pp. 14 and 19.

3. The importance of independence, technical rigour and credibility

Lasting, systemic change requires that important market functions are embedded within the system, performed by market players with the capacity and incentives to undertake those roles in the long term. Using an M4P approach means facilitators encourage and support private and public sector players to take on new, or adapted, roles within the market system to make it more inclusive and of benefit to the poor. The role of the facilitator is therefore explicitly catalytic—working towards a future vision of a market which does not require aid-funded support and ensuring that any intervention is guided by a clearly defined 'exit strategy'. To do this, facilitators must be engaged, knowledgeable, neutral and flexible—ultimately they must be credible and earn the trust of market actors.

> A facilitator is able to intervene successfully if it is a known entity with an ongoing 'on the ground' presence, respected for knowledge and technical rigour, and perceived as being independent, rather than a market player.

3.1 Establishing credibility

Credibility emerges from what facilitators do and from the perceived value they bring. To be credible with potential partners and other stakeholders, facilitators need to develop and promote their role and what they have to offer. This is done through frequent participation in various stakeholder forums, the publication of research findings, individual meetings with people and organisations able to influence the market, etc. It is when a facilitator has developed technical competence, market knowledge, informed analysis and independence, and shared this with the right audience, that intervention possibilities emerge. At the same time, a fundamental aspect of facilitation is ensuring market actors take ownership of innovations and that the facilitator is not seen as simply a donor.

> Successful facilitation is about developing the right relationships with stakeholders, being sufficiently informed about specifics and the general situation in the market, and knowing 'who' as well as 'what' in relation to market players.

Becoming credible in the eyes of various stakeholders requires segmenting information to reach different audiences. Rarely does a facilitator need to engage with the public as a whole and market themselves to consumers. Rather, facilitators need to be strategic and focused on who they engage with and how they promote their objectives. This is key to selecting appropriate partners and to implementing successful interventions, as well as for crowding-in other players and bringing different market actors together. Consequently, although not commercial in their objectives, facilitators have to act in a business like way, and, like businesses, have to consider what they (and their brand) mean to different players.

Developing the market for inclusive insurance

FSD Zambia aims to stimulate a competitive microinsurance market, increasing the number of insurance companies serving low-income persons and offering an increased diversity of insurance products, including health- and/or agriculture-related products. Central to this strategy is strong industry leadership and coordination of the market's development through the establishment of a multi-stakeholder Technical Advisory Group (TAG). In working through the TAG, FSD Zambia has built stakeholders' support for and contribution to a change process to develop the market; the TAG approach is based on the assumption that engaging relevant industry stakeholders is the most effective way to ensure relevance and ownership of a change agenda in a nascent market's growth. Rather than provide a large amount of funding to insurance providers, FSD Zambia, through the TAG, focuses on the development of market functions including consumer education, capacity development and informed policy formulation through public-private partnerships. Overall, there is a plausible pathway connecting FSD Zambia's support for the TAG to the promotion of the microinsurance market.

Developing the market for inclusive insurance (continued)

The TAG has given FSD Zambia, and the market changes it promotes, a degree of credibility and impartiality. The strong technical knowledge and experience of FSD Zambia's microinsurance team has provided a platform for conducting analysis and generating insights and lessons. This has further established the team's credibility, giving it a convening power and enabling it to build strong networks. For example, it has enabled FSD Zambia to engage with the regulator and other key stakeholders in a way not necessarily possible if FSD Zambia had acted alone.

Source: FSD Zambia Case Study, pp. 7 and 9.

3.2 How do facilitators ensure their neutrality, acting neither as market player nor donor?

Facilitating organisations such as FSDs, while funded by donors, are not traditional donor programmes, yet it is often difficult to explain the difference to external stakeholders and, in some instances, to internal stakeholders, including staff and/or governance bodies. Some funders, particularly those new to the M4P approach, also need to understand the role facilitators play and not have misguided expectations when funding. When stakeholders such as funders, governance bodies and new staff do not understand facilitation, efforts by organisations implementing the M4P approach can be undermined.

To be effective, it is imperative that organisations implementing a market development approach are viewed as, and indeed act as, facilitators rather than market players. Facilitators are a 'third party'; standing outside the market encouraging, influencing and supporting systemic change. Their primary role is to use resources to address constraints to allow and facilitate the system to function more effectively and inclusively.

> Stakeholders must perceive facilitators as neutral and trusted third party actors, with clear lines of communication with both private and public players. Although known to be funded by donors, facilitators must not be seen as 'another' donor project—but as an entity that is grounded in the local context.

While facilitators are not market players, they are also not donors nor donor-funded 'projects' and cannot simply provide funding and wait for reports; it is important they are not seen as providing a short-term package of predefined activity. Rather, facilitators must offer something of use beyond funding—information, advice, expertise, an understanding of constraints and what has worked elsewhere, etc. It is this insight that allows facilitators to influence market actors to ultimately change their behaviour to make markets work better for the poor.

Facilitators need to manage multiple relationships with different organisations and be perceived as acting in the national/developmental interest. This is what enables them to coordinate different (competing) players to cooperate for mutual/public interest, and to engage with different individual companies on the basis of trust and confidentiality. Acquiring this status is a result of conscious effort—reinforcing the message of what the purpose of facilitation is, and emphasising that individual partnerships do not preclude other arrangements or imply 'being in the pocket' of a particular firm. It is critical for facilitators to be able to engage constructively with different players to be effective.

To effect lasting market system changes, facilitators need to able to stick with processes, particularly those involved with the public sector, which may take many years to complete. While it might be argued that development of supporting functions, for example, could be achieved more quickly, pushing the pace of change risks undermining ownership and thus the long-term success of the intervention. This speaks directly to the benefits of being able to engage long-term. Even if the change initiative exceeds the time for which the facilitator is involved, engaging with a long-term vision and clarity of the role of the facilitator and other stakeholders within a clear theory of change allows the facilitator to still contribute. Longevity also allows new possibilities to emerge and to be pursued, and in complex/large-scale markets, creates the ability to address emerging challenges because earlier work has laid the foundation.

Facilitating a payments platform

FSD Kenya began discussions with Central Bank of Kenya (CBK) around payments in 2008-09 when the potential implications of M-Pesa were beginning to emerge and a concern was growing that its first-mover advantage was shifting to a de facto monopoly position. FSD Kenya led a scenario development process to raise the industry's awareness of the significance of payments systems. This was followed by a study that recommended improved industry cooperation to allow economies of scale in payments. Working with the Kenya Banker's Association (KBA) to consider options with respect to payments, FSD Kenya identified a strong business case for the industry to create an interoperable national retail payments system. The National Payments System Act of 2011 also made clear that CBK supported collaboration between providers in the development of payments systems. From this starting point—a shared vision of the future—when the scale of the task became clear, FSD Kenya seconded a staff member to KBA to work full-time on the development of the switch.

FSD Kenya's credibility and neutrality has allowed it to engage with different (competing) market players, its flexibility has allowed it to adopt different activities, including placing a full-time project manager, and its longevity has allowed it to stick with a sometimes frustrating process (over a period of six to seven years) in a way which has allowed partner ownership to develop. As a consequence of these qualities, the impact of this intervention is likely to be significant.

Source: FSD Kenya Case Study, p. 41.

3.3 Successful facilitation requires technical knowledge and expertise

Good facilitation requires facilitators to have the confidence that derives from detailed knowledge of the challenges facing the market system. Facilitators must be viewed as technically competent and do something for market actors that the actors cannot do for themselves. The combination of technical expertise and knowledge/information is instrumental in establishing and maintaining credibility. If the information is accurate and timely, and the technical expertise sound, the facilitator is perceived to be a trusted party, making facilitation of systemic change possible.

This knowledge and competency is built up over time by contintually assessing and understanding the market and the players within it, participating in stakeholder forums, and meeting with individual market actors. While facilitators need to invest in market analysis for their own purpose to effectively intervene, bringing that information and knowledge strategically to partners and other stakeholders is of key importance.

Targeting communication to the right people

Insightful analysis has little value unless it is communicated effectively, reaching the right people with the right information. FSD Zambia has communicated with a wide variety of stakeholders in the insurance sector, via meetings of the Technical Advisory Group (TAG), the dissemination of research and focus notes and the delivery of regular, tailored presentations to various stakeholders. These different channels and information products have helped foster trust and the emergence of a cohesive voice for the microinsurance industry.

Source: FSD Zambia Case Study, pp. 7 and 9.

While technical competency cannot make up for a lack of willing partners, if there are market actors who 'want to change', and the key barrier to change is organisational/technical know-how ('don't know how to change'), it is crucial that facilitators have, or can access—and then provide—appropriate technical competency to have a useful offer to partners. In the absence of this, interventions cannot be successful.

3.4 Is it necessary for staff to have financial sector expertise as well as understand M4P?

Facilitation is a people-intensive task and facilitating organisations are comprised of the sum of the talents and qualities of individual people. To be effective, staff require a range of skills including technical knowledge, market awareness, empathy and enterprise. However,

knowing about financial markets is not the same as knowing how to apply M4P in financial markets.

> Weaknesses in the operationalisation of the M4P approach can often be attributed to a lack of investment in staff's understanding and ownership of the approach.

The market systems approach requires a thorough understanding of the market system and the players within it as well as good knowledge of the M4P framework and tools. It is thus vitally important to invest in the capacity and knowledge of staff to ensure a deep understanding of the market systems approach and how it is applied.

That said, knowledge and application of the market systems approach is a unique skill set and is hard to find. While certain attributes can be found and the required skills taught, learning the practicalities of applying the approach can almost only be learned through experience and, ideally, through sharing and mentoring from others that have successfully applied M4P.[12]

However, while the basic framework provides guidance on how to act, because M4P is highly contextual and intervention/partner specific, a 'to-do' checklist cannot be provided. Importantly, the market systems approach challenges facilitators to make sense of the approach in their own contexts. It is ultimately spending time 'doing M4P' that will develop skilled staff.

Of particular importance is leadership. The strengths and weaknesses of a facilitating organisation are often personified in those of its director or CEO. The person leading the organisation must have a deep understanding of, and know how to apply, M4P principles and tools and be willing to invest in internal processes for staff development including mentoring and coaching. Often leaders come to facilitating organisations from the development sector after many years of experience.

It is important, however, that they resist defaulting into a way of working based on previous experience managing donor 'projects'. This is particularly valid given most stakeholders and, in some cases, funders may not fully appreciate or understand the market systems approach.

A strong leader is required to ensure staff are clear on the objective and role of the facilitating organisation and how to effectively communicate and implement M4P, and are well mentored. In addition, it is important for the leader to educate funders on the approach and what it means in practice.

Facilitating the SME finance market

In 2014, FSD Tanzania's Financial Capability Baseline found that 59% of Tanzanian adults had heard of and understood stocks and bonds, while 24% had heard of them but did not know what they were. Although the Dar es Salaam Stock Exchange (DSE) had grown from 33,500 investors in 1998 to nearly 200,000 by 2013, the latter number represented less than 1% of the Tanzanian adult population.

In April 2010, the Capital Markets and Security Authority (CMSA) amended regulations to better cater for small, medium and 'well-researched' start-up businesses (i.e. those with a convincing business plan that could not meet the listing criteria of the main DSE market). Specifically, DSE trading rules were altered to allow the listing and trading of Enterprise Growth Market (EGM) securities on the exchange. The EGM aimed to supply long-term equity capital for growth-oriented SMEs. Although these changes established a more enabling legal framework for financing SMEs via the EGM, the capacity of the regulator and supervisor, CMSA and the DSE, to develop, operate and oversee this additional market segment was relatively low. At the same time, awareness of this alternative capital-generating source for an investment class among SMEs and potential investors was low.

FSD Tanzania sought to catalyse investment finance in SMEs through the EGM. Providing approximately USD1.36 million to CMSA and DSE in 2011, FSDT supported the operationalisation of the EGM and stimulated take-up by firms and investors. This work included public awareness campaigns, providing technical support to MSMEs and nominated advisers and building the regulator's ability to supervise the EGM segment.

[12] M4P is hard to do well and there are relatively few examples to learn from. This makes it difficult to provide clear guidelines to staff on what to do. However, it is possible to provide the basic tenents of M4P, and to that end, FSD Africa has developed and offers a comprehensive training programme to FSD staff as part of the FSD Academy.

Facilitating the SME finance market (continued)

The FSD Tanzania SME team's knowledge and experience in SME financing allowed it to offer new analysis and distinctive insights to its partners and demonstrated competence, which gave them credibility with their partners. Conversely, the team relied on the analysis of its partners where this was closer to their core competence, i.e. regulating and operating a stock exchange.

Source: FSD Tanzania Case Study, p. 12.

3.5 When does it make sense to bring in external expertise?

Detailed analysis of the financial market system can lead to identification of a range of constraints that may be valid to consider for intervention, but analysis should only lead to intervention, especially in technically advanced areas, if facilitators have a realistic chance of providing or accessing competent intervention capacity. Interventions will only work if facilitators have sufficient knowledge and skills to intervene.

However, not all staff need to have technical competency in all areas. At times, it is both useful and necessary to bring in external expertise through consultants to work directly with partners or other stakeholders, or to support capacity development of staff. Consultants possess unique and specialised skill sets and expertise. Of key importance, however, is the ability of staff to be able to effectively identify and manage consultants to ensure the needed expertise and appropriate tasks are completed, consistent with the strategic vision. It is vital for facilitators to be realistic about this to avoid the damage that can be caused by 'bad' implementation.

Developing the agriculture finance market

FSD Kenya's main intervention in the agriculture sector, initiated in 2009, was aimed at the development of agriculture Value Chain Finance (VCF) targeted at smallholder farmers. The rationale was that VCF is a potentially useful way of extending finance effectively to different players throughout value chains, enhancing the performance of the value chain as a whole and not just individual players within it. However, VCF requires rigorous quantified analysis of the value chain and of the financial needs/flows within it, and this was an analytical approach that was relatively new.

Primarily an action-research project, FSD Kenya intended to support a number of pilot processes of detailed research that would lead to VCF product development. Four value chain studies were planned but only two were undertaken and one of these was abandoned on realisation that the research was not rigorous enough. Since the research was the foundation of the whole project, in its absence all the other activity fell to the side. The project therefore did not succeed in meeting its key targets and testing new VCF products, let alone developing a supplier of services.

The project, costing USD0.7 million, failed to gain traction and achieved limited learning. Why was this? Two issues undermined FSD Kenya's efforts. First, the project was seeking to 'establish a source of technical expertise' in an advanced, research-oriented field, and therefore had to be technically led. In practice, though, it wasn't. External consultants were used but technical leadership from FSD Kenya was very thin. Its offer therefore—what it brought to the table in discussions with providers, more than simply the detail of written agreements but what was said and who was saying it—lacked credibility. Meanwhile the implementation arrangements with the external party which was to 'bring the expertise' collapsed as they shifted their focus to other activity. FSD Kenya committed to undertake a technically challenging task, and recognised this, but was left unable to deliver.

Source: FSD Kenya Case Study, p. 25.

While it is often appropriate to bring consultants in to conduct market analysis, this is one area where it is crucial for staff to have a good understanding. Engaging with the market, selecting the right partners and knowing what information to bring to whom and when are all fundamental aspects for staff and should not be outsourced to consultants. This is what facilitators bring to the table—it is their value-add—and it must be internal and ongoing. While it is appropriate to bring in deep technical expertise in a particular area or sector, staff need to be fully aware and have a deep understanding of the market.

4. Developing interventions and selecting the right partners

Facilitators undertake a series of interventions designed to catalyse lasting, widespread, transformational change in financial market systems. Facilitators intervene and partner with market actors to encourage and support them to, for example: develop and offer new or improved services, upgrade their capacity and performance, take on new roles in the system, change the way they relate to other system actors, or change the way they formulate or enforce rules (both formal and informal). For lasting change to occur, market actors must have the incentive to change and must share the long-term vision and commitment put forth by the facilitator.

> Facilitators need to develop partnerships with organisations that have the ability to add value, whether through expertise, resources or motivation. At different stages, different partners are required to achieve different things. Working with multiple partners allows facilitators to test different solutions to common problems. This competitive element improves learning, and increases options and ideas for what constitutes good practice.

4.1 A clear strategic vision is fundamental

The starting point to designing interventions[13] is to develop a clear strategic vision. Market development is rarely the result of one intervention only; rather it takes a range of interventions aimed at addressing different constraints which are complementary in their effect. The portfolio of interventions undertaken by facilitators therefore has to fit with an overall future vision of the financial market, and a future vision of the interconnected markets within. This vision must recognise that the role of facilitation (and facilitators) is not permanent and that ultimately the objective is for the behaviour of market actors to change, resulting in increased financial inclusion. Doing this requires regular review and challenges around the basic question: where do we envisage the market 'x' years from now? Without this discipline, market development can end up as a collection of separate activities, each with its own justification but which together miss the bigger strategic goal.

> Having a clear vision of the future—not just of how individual parts will function but how the system as a whole will work and be funded—is key to lasting change.

Part of developing a clear strategic vision is to consider the feasibility of achieving that vision—both at the wider market level as well as for specific interventions. Will the intervention result in the desired market system changes, which will then result in increased use of financial services, which in turn will result in improved livelihoods? An important tool to develop a strategic vision is consideration of 'who-does-who-pays' currently, and determining who will do and who will pay in the future.

Of key importance here is to be both realistic and cognisant of market player incentives and capacities. Partners not only need to share the vision, they also need to be capable and have the incentives and commitment to achieve that vision. Without this, interventions will not result in the desired market change.

Developing a credit information system

In the 1990s, the Kenyan finance industry struggled with high levels of non-performing loans (NPLs) and bank failures. Credit information sharing (CIS) featured in regular but generally ineffectual discussions between the industry and Central Bank of Kenya (CBS), with few concrete actions emerging.[14] In 2007, a new law requiring negative information sharing was introduced but was not followed. A Joint Task Force to force progress on CIS was established but little was achieved. FSD Kenya, seeing an opportunity and a need, took the initiative in proposing to coordinate the work of the Task Force.

[13] 'Interventions' refers to activities implemented by the facilitator, usually with a partner, to effect market system change.
[14] Johnson, S and Boulton, J, Impact assessment of financial market development through the lens of complexity theory, FSD Kenya, 2014.

Developing a credit information system (continued)

For the members, FSD Kenya represented a good choice—they were trusted, known, neutral and involved. A project manager was appointed in 2009, and seconded to the Kenya Bankers Association (KBA). He brought considerable personal credibility, having been with the CBK and World Bank and having been engaged in the CIS discussions for some time.

FSD Kenya's intervention to develop the CIS has worked well, in part due to a relatively clear vision of the future—not just of how the Association will function but how the system as a whole will work and be funded. Here it was not simply a matter of 'donor funds' but of active facilitation, coordinating tasks that were essentially one-off interventions. FSD Kenya has played the key technical and coordinating role thus far but the finance industry has an incentive to make this work—and there are clear indicators in place to test this commitment.

Source: FSD Kenya Case Study, p. 19.

4.2 Financial market development requires more than simply increasing supply and demand

While offering more financial services to more people, ultimately increasing the number of transactions in the core, is crucial to making the financial system work better for the poor, achieving financial inclusion is more complicated than a straightforward equation of supply and demand. It involves many other functions—information, skills building, product and organisational development, advocacy, norms, regulations and policies—that determine behaviour and practices and influence transactions. These functions are performed by a diverse range of public and private actors, formal and informal, who are influenced by a wide range of contextual factors.

While traditional development approaches promote increasing the delivery of financial services in the core of the market, the market systems approach works to address underlying causes in supporting functions and rules, with the ultimate goal of effecting change in the core.

This does not mean facilitators cannot engage directly in the core of the market with, for example, financial service providers (such as banks). On the contrary, in practice this is often required in order to understand the supply and demand and to understand the constraints. However, from a market systems perspective, for interventions in the core to be valid they must cause change in the wider market system. Engaging with a range of actors is therefore necessary; for change to be systemic, it has to be manifested in change in supporting functions and rules.

For example, an important and relevant informal rule in the financial sector is the attitude financial service providers have towards risk. One of the ways to address this attitude is to support the development of a credit information system—an 'interconnected market'—to provide more information to providers, which in turn reduces risk and should result in increased transactions in the core, i.e. more people or businesses accessing credit. This is achieved without intervening directly in the core.

Supporting infrastructure development

Two of the most important 'pieces' in the public supporting functions of the finance industry are a credit information sharing (CIS) system and a shared payments platform. Both are essential to reduce transaction costs by lowering risk and improving the integration of major retail channels. FSD Kenya has played a pivotal, coordinating role in the story of their development in Kenya, a process which has taken six to eight years of varying levels of intervention. In both cases FSD Kenya is still engaged actively and playing a leading role, both in 'doing' and in funding. However, in both there are realistic, discernible paths ahead for FSD Kenya's withdrawal and for the future sustainability of the management and delivery arrangements of these services. Use of the CIS system is increasing and, as it does, this should begin to reduce risk and the cost of credit.

Source: FSD Kenya Case Study, p. 35.

4.3 Effective facilitation requires an honest appreciation of incentives

Understanding incentives that shape behaviour in individuals and organisations is integral to understanding markets, to selecting partners, and to designing and managing interventions. Interventions on 'how to change?' only work if they are consistent with 'why change?'. Misalignment between incentives of individual partners or the wider market and the objectives of the facilitator can be problematic. Change must matter to partners; until they have incentive to change, change processes are likely to be someone else's (a government or a donor's) agenda.

> Facilitators need to be careful not to be overly-optimistic on partners' incentives, and need to be aware of the extent to which donor funding seeps into incentives in the financial sector.

According to the Springfield Centre: "Incentives operate at various levels: for and between individuals, and within and between groups or organisations. They are shaped by attitudes towards risk and reward (e.g. losing or gaining money, status, reputation, opportunity, assets or resources). Incentives can be:

- Materially-oriented: based on a desire to get something, or to not lose it, e.g. food, money, market share, property or freedom
- Socially-oriented: based on the need to belong to, or not be rejected by, a wider collective, e.g. being accepted into a group of peers with shared values
- Purpose-oriented: based on a quest to achieve a goal, which can be individual, e.g. becoming a village head or running a marathon, or collective, e.g. supporting a political cause."[15]

With all interventions, but particularly when intervening in markets that require substantial change by individual market players, or where there is a need for a system-wide intervention indicating that a long-term, recurrent market function needs to be established, it is important that faciliators do not over-estimate partner enthusiasm and readiness, or rely on only one partner. For example, at least superficially, banks often display interest in developing their SME portfolios—for some this is a logical step to a less price-sensitive and potentially higher-margin market. However, in general, banks do not fully understand what a commitment to SME clients means in practice, or the depth of institutional change required. As this becomes clearer, so their incentive to change often weakens.

Understanding incentives in the SACCO sector

What lay behind the poor performance of FSD Kenya's work with SACCOs was an incentives problem—SACCOs didn't want, or see the need, to change. This in turn was caused by, first, the traditions and values (informal rules) around SACCOs. As members of community-owned institutions and part of a 'movement', many SACCO members felt entitled to loans and resented external pressures to change. This view was promoted by the SACCOs' association and had powerful political backing. The second incentives issue was related to the balancing act required by the newly established SACCOs Societies Regulatory Authority (SASRA) between moving to establish credible regulatory standards swiftly and avoiding damage to the industry and its own standing by precipitate or overzealous action. With necessarily limited resources and experience at its disposal and a somewhat sceptical industry, SASRA took a relatively cautious route.

In this context, even though it recognised the central incentives problem in SACCOs as early as 2010, FSD Kenya's analysis underestimated the strength of informal rules around SACCOs and overestimated the power of formal rules. With some exceptions, SACCOs still do not have the right incentives to change and therefore have limited interest in investing in capacity. No matter the excellence of the TA provided, FSD Kenya's capacity-building endeavours were never likely to be successful when they were battling against the prevailing incentives grain.

Source: FSD Kenya Case Study, p. 12.

[15] Springfield Centre (2015), page 16

4.4 Identifying and selecting partners with a shared vision and strong commitment

A facilitator must be transparent regarding what it wants to achieve, shaped by its clear vision for how financial markets might evolve. Part of being an effective facilitator is being able to clearly articulate the 'offer'. In crafting the offer it is important to establish clear roles and recognise mutual benefits. What matters is that partnerships foster the right kind of productive, working relationships, tapping into wider motivations for each party: for partners, it is often the technical support and/or international endorsement and exposure; for the facilitator, it is the opportunity to learn from 'real-life' work with key providers which then informs and enables synergies in its work with other partners. Clarity is required regarding the goals and end point for interventions.

> Facilitators do not simply provide 'donor funds' but must actively facilitate, coordinating tasks that are essentially one-off interventions. Facilitators can play the key technical and coordinating role initially but the finance industry has to have the incentive to make it work and there must be clear indicators in place to test this commitment.

Making relationships work with partners is about crafting an arrangement that offers something useful but which also tests partners' commitment, ultimately allowing them to develop ownership over the process and outcomes. Particularly with commercial providers, it is always relevant to ask what is being given in return, even if it is simply a new idea or pilot project presented by the facilitator. This is not a matter of simple cost-sharing. Counterpart contribution is a vital test of commitment and a way of engendering ownership in the long term. Gauging the right level of contribution is a challenge, however. In a nascent industry, it can be argued that grant subsidy needs to be relatively high in the initial years, and then should be reduced over time, as the business case is proven and stakeholders' confidence and willingness to invest rises. However, if the relative level of subsidy is too high, or goes on for too long, it can have the opposite effect: it displaces stakeholders' willingness to invest and undermines the sustainability of key market functions.

When facilitators do not test the commitment of partners sufficiently, misunderstandings and lack of delivery can undermine the intervention, and relationships linger unproductively. Ascertaining commitment in large organisations means going beyond specific individuals to understand corporate decision-making structures.

Clarity of mutual purpose and an evolving offer

FSD Kenya's approach to facilitating the development of M-Shwari was based on a temporary but close partnership. Yes, legal formalities were observed, and non-disclosure agreements signed, but these were more to meet compliance needs than performance management needs. This was a partnership, in which mutually compatible objectives were identified, where the distinctive, value-adding roles of each party were recognised and respected—and then reflected in how the partnership was structured and managed operationally.

Commercial Bank of Africa (CBA) had the opportunity and the resources to develop a banking product, but it had no prior retail banking experience or exposure to the types of clients relevant to the opportunity at hand. FSD Kenya understood this market segment and could offer tangible value in helping CBA to bridge this knowledge gap. The simple act of giving Eric Muriuki Portfolios of the Poor achieved two partnership-shaping effects: firstly, it helped him to realise just how much CBA didn't know, but needed to; and secondly, it cemented his recognition of the value that FSD Kenya could bring to the partnership.

FSD Kenya was transparent about what it wanted to achieve, and had a clear vision for how financial markets might evolve in Kenya. FSD Kenya's objectives, strategy and anticipated impact pathways provided a guiding framework within which the M-Shwari collaboration emerged and was managed. Such clarity of mutual purpose was crucial to establishing the conditions within which genuine partnership discussions with CBA could take place. This understanding of each party's respective 'offer' allowed roles, responsibilities and resources to be determined and delineated, as well as mechanisms for jointly managing and directing implementation.

Source: FSD Kenya Case Study, pp. 12 and 14; FSD Kenya M-Shwari Case Study, p. 11.

5. Monitoring market system changes and responding effectively[16]

> Market system change often occurs in an iterative, sequential manner rather than all at once. The dynamic nature of markets underscores the need for rapid feedback loops.

Facilitators must consider and assess the extent to which (proposed) interventions (will) result in market changes which are systemic, large scale and sustainable. Timely, accurate feedback is required to assess intervention effectiveness and to adjust interventions accordingly. Measuring and validating intervention results and tracking and verifying the link between interventions and financial inclusion objectives is achieved through a Monitoring and Results Measurement (MRM) system.

MRM is not the same as Monitoring and Evaluation (M&E), the traditional function most often found in donor-funded projects; rather it is an integral part of effective facilitation. It is not a one-off event to be performed at the start and end of the intervention. It must be continuous and ongoing, and fully integrated into decision making—beginning with intervention design and continuing through implementation and beyond.[17] To be effective, MRM requires a culture and management style which promote evidence-based decision making. This means asking the right questions and using the right tools to generate useful information, and then responding to that information by adjusting (if necessary) intervention strategies. This is referred to as 'adaptive management'.

MRM must be led by a qualified senior level manager who works closely with the programme team to design interventions (through jointly developing and refining results chains) and monitor progress, continually checking assumptions and the logical links from interventions to market system change, to increased access and usage, to impact. Ultimately, it is the responsibility of programme staff—those managing the interventions—to use this feedback to adjust interventions if required and to know when the vision has been achieved. The MRM team supports this process but results chains should be an integral part of programme staff responsibilities.

> Underpinning M4P, and explaining its difference from conventional approaches to development, is a different theory of change—that is, a different logic model of the change process that intervention should catalyse.

5.1 The value of results chains and integrating monitoring and results measurement

Results chains detail the anticipated process that will occur from the intervention, to market system changes (outputs or outcomes), to increased access and usage (outcomes or higher-level outcomes), and, finally, to reduced vulnerability, and/or poverty alleviation, and/or increased economic opportunities (impact).[18]

Developing and monitoring the theory of change through results chains helps to establish whether linkages between interventions and intended impacts are plausible. "For a theory of change to be evaluable it must be clear, relevant, plausible, testable, and contextualised, and it must take account of complexity."[19] Results chains are developed for each intervention. They allow facilitators to visually determine what needs to take place to achieve the strategic vision. Results chains are fundamental to designing interventions to check the logical flow before the intervention begins, and then for measuring progress and revising interventions along the way. Results chains support an iterative planning process by ensuring the link from one box to the next is logical and feasible and will eventually lead to impact. If not, then the results chain (and therefore the intervention) needs to be revised and/or assumptions adjusted.

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[16] This section draws from FSD Zambia MRM Manual, 2014 (unpublished); and CGAP Measurement Handbook, forthcoming.

[17] For further information on MRM, please see 'Developing an Impact Oriented Measurement System' at http://www.fsdafrica.org/wp-content/uploads/2016/01/16-01-07-MRM-for-M4P-Impact-Orientated-Measurement.sv_.pdf.

[18] Many funders require facilitators to report on their outputs and outcomes (and sometimes impact) using logframes. To ensure interventions are designed to contribute to overall objectives, and to avoid creating a parallel monitoring system, results chains are aligned with logframes and the M4P strategic framework as follows: activities=inputs; market system change=outputs; access/usage=outcomes; improved livelihoods=impact.

[19] Oxford Policy Management, Developing an Impact Oriented Measurement System, FSD Africa, 2016.

Plausible pathways to impact

In 2011 Safaricom began discussions with the Commercial Bank of Africa (CBA) over a potential collaboration. The rationale was to combine the M-Pesa 'rails' to reach a large customer base (M-Pesa is used by 68% of the adult population) with all the services that a bank could potentially provide. For people in the industry, this type of collaboration was expected and was a logical next step, especially in the light of a recent partnership attempt between Safaricom and Equity which had failed. CBA knew and had engaged with FSD Kenya before, and approached them for their thoughts and potential input. FSD Kenya saw this as an opportunity to influence an innovation which, in some ways, was going to happen anyway, in order that it was more likely to be successful and would be more oriented to low-income people. This was an opportunity to build on this experience and develop a technology-based product that responded to the real needs of poor people, particularly their need for flexible savings and loans to allow both liquidity and convenient saving for investment.

FSD Kenya and CBA agreed on a relatively open-ended collaboration. The first year of this was based mainly on qualitative and quantitative research to understand potential customers and the market in more detail. It also included a range of technical inputs. Of particular note was the credit-scoring model where repayment records for customers for phone airtime were to be used as the basis for scoring. FSD Kenya's input was technical and drew on their own staff and, for specific tasks, external experts.

M-Shwari was launched in late 2012, with strong interest from customers immediately. However, FSD Kenya was concerned that the credit-scoring model was rejecting too many (poorer) customers. Post-launch they initiated with CBA an experiment to assess the effectiveness of a new scorecard. In this case, their input was not just technical but an agreement to underwrite the experiment financially, capping CBA's potential losses. In practice, losses were moderate and a revised scorecard that increased the acceptance rate for credit applications from 42% to 57% was introduced in December 2014, effectively extending credit to poorer customers.

There is a clear, plausible pathway connecting support to M-Shwari with FSD Kenya's goal. At the outset, this impact pathway was supported by evidence about the economic impact of M-Pesa. The 'innovation' of building the M-Shwari banking product on to the M-Pesa platform reduces transaction costs, increasing access to formal savings and credit facilities and thereby enabling poor families to cope with shocks and reduce their vulnerability.

Source: FSD Kenya M-Shwari Case Study, p. 9.

Results chains are not static; they can and should be revised as the intervention progresses and in response to market changes, in turn revising interventions as needed. Market development programmes rarely focus on only one intervention or only one partner but rather are continuously trying multiple solutions with different market actors and different innovations. Monitoring and assessing the results of multiple interventions and how markets, including interconnected markets, are changing through results chains, allows facilitators to then act on that information to ensure successful facilitation.

5.2 A different perspective on accountability

According to the Springfield Centre, "Results chain indicators measure progress towards system-level, pro-poor growth or improved access and poverty reduction changes, as well the sustainability of these changes."[20]

> Indicators must be tested to ensure they accurately capture the intended effects, including sustainability of changes.

One or more indicators are required for every box in the results chain. For key changes, two or three indicators are used, populated from different sources, to allow for the triangulation of results. Defining indicators for every box allows facilitators to monitor change at each level of the results chain, allowing the programme team to test each assumption underlying the intervention logic and pinpoint problems, and to help the MRM team construct a chain of attribution from activities to high-level impact.

[20] Springfield Centre, 2015, p. 39.

Indicators can be quantitative (numerical) or qualitative (descriptive). Quantitative indicators can be used to analyse trends and measure the scale of change; however, they invariably miss the nuance involved in change processes, which can only be captured through qualitative indicators. Results frameworks which focus exclusively on quantitative targets can create the wrong incentives by tempting programme personnel to tailor their interventions 'to chase the numbers' within target timeframes rather than explore longer-term, often less easily quantifiable, but more sustainable outcomes. Where quantitative indicators are chosen—particularly standardised ones—caution should be used in interpreting them. Preferably, each box will have a combination of both quantitative and qualitative indicators.

When pre-defining indicators, there is a strong inclination to look for common indicators so that key performance information can be aggregated from the intervention through to impact. However, for market development programmes, the scope for quantitative indicators, particularly any that can be comparative, is limited. Results are also less predictable in advance as facilitators need to be able to experiment and adapt. This does not absolve facilitators of accountability but it does speak to the need to be flexible and to have a willingness to adapt indicators along the way.

In determining expected changes, projections are made based on knowledge of the market and expected changes, and then results are measured based on measurement plans. By measuring the achievement of indicators, facilitators try to demonstrate a plausible causal link between activities through to market system change, improved financial service access, and improved livelihoods (proving results). They also allow management to pinpoint where the logic is failing if the intervention does not generate the expected results and then adjust as necessary (improving results). When interventions are modified and/or new interventions are implemented, results frameworks need to be seen as hypotheses rather than roadmaps. They should be regularly reviewed and, if necessary, revised. Measuring results and monitoring the market is an iterative process where feedback informs changes or modifications to interventions, which in turn inform changes to results chains.

Similar to pre-defined indicators, measurement plans are generally pre-defined; however, it is important to increase the scope of measurement to include unexpected or unplanned outcomes and external factors. As interventions are carried out, facilitators monitor whether or not change is occuring as expected, and in addition, monitor various interconnected markets within the overall market system. Monitoring both the expected changes as well as change in interconnected markets helps the facilitator to determine if there is a need to adjust interventions accordingly.

Effects of a weak feedback system

The dynamic nature of markets, not least those in the financial sector, underscores the need for rapid feedback loops. To remain relevant, interventions must be cognisant of changing context and able to respond accordingly. FSD Kenya's early experience in the SACCO sector demonstrated its capacity to respond and be flexible, yet the mechanisms through which feedback continues to inform decision making appear weak. Disappointing results from work with SACCOs and consulting service providers have not been effectively used to inform and shape subsequent interventions or the adaptation of intervention strategy or tactics. In not routinely tracking and verifying the link between its interventions and its financial inclusion objectives, the ability of FSD Kenya to continue to support the sector in a way that is directly relevant to the financially excluded remains constrained.

Source: FSD Kenya SACCO Case Study, p. 15.

5.3 Monitoring changes in the market system and the impact of increased financial inclusion

While funders often measure facilitator performance by outcomes—metrics around access and use of financial services—it is important to also measure quality and welfare, and, potentially, the overall impact on low-income populations. While gaining access to financial services may help poorer people manage their lives better, the benefit is likely to be a marginal improvement rather than one that is transformational. Measuring access only neglects consideration of what the role of financial markets should be, and what 'good' financial services, which can bring significant benefits to poor people, are. By focusing on access and usage only, facilitators avoid the reality of financial market incentives that are driven by short-term gains rather than providing benefits and opportunities for the poor. Facilitators therefore need to not only monitor how the market system is changing (access and usage) as a result of the intervention, but

also how increased access and usage impacts on the lives of poor people and small businesses.

Measuring impact, however, is more complex. Results chains appropriately go beyond access to consideration of the impact resulting from market system changes and increased access. This intended impact is often related to poverty alleviation, improved livelihoods or reduced vulnerability. However, pathways from intervention to sustainable change at scale are long and unpredictable. Measurement of 'impact' needs to be planned strategically over the long term (when it is realistic to expect significant impact) and should not be done prematurely.[21] To measure the impact of financial inclusion, both facilitators and their funders must be willing to commit resources as robust impact assessments can be quite expensive and time-consuming.

[21] From CGAP Measurement Handbook, forthcoming.

6. Balancing tensions and challenges

Facilitating financial market development is difficult and inevitably tensions and challenges arise that facilitators must address. In particular, it is difficult to balance the need to get things done and show results with the need to ensure market functions are embedded in the system. Equally challenging is the need to develop service markets or other support functions when the capacity and incentives are lacking in market actors. It is important for facilitators to recognise these challenges and to ensure interventions consistently focus on achieving a future vision—financial services used by, and benefiting, large numbers of the poor, without the continued presence of the facilitator.

> Understanding the market and the partner within; technical competence; personal credibility; and a 'low ego' to allow ownership, flexibility in developing an appropriate 'deal' and changing the nature of the service being given (the 'offer') as a situation develops, are all fundamental aspects of successful market facilitation.

6.1 Balancing pressure from funders to disburse, reach targets and provide workplans in advance with the need to be flexible and opportunistic

Facilitating market system change requires facilitators to be flexible and able to take advantage of opportunities that arise or to change course or delay interventions until market actors are prepared to act. This often means the best laid plans may change; and not because the facilitator is not performing but rather specifically because the facilitator is being responsive and is engaged with the market. Pressure from funders to disburse, or to stick to workplans or budgets agreed to in proposals, or to reach pre-defined (logframe) targets by a certain time, can result in facilitators using the wrong tools and instruments—for example, grants instead of providing information or technical assistance on a cost-sharing basis—or intervening prematurely either because the facilitator is not sufficiently informed of the market constraints or there are no committed market actors with true incentives to change. This ultimately undermines the role of a facilitator and complicates the view and perception of the facilitator in the market. Facilitators can only encourage the different functions and players, with their different capacities and incentives, so much. They do not control market actors, and not everything can work as expected.

Furthermore, when things do work, it is not always in the planned timeframe; facilitation frequently takes longer than expected. Facilitators often need to test various interventions to determine capacities and incentives and what will ultimately change behaviour in the market system. It is important funders and other stakeholders understand this and allow facilitators the flexibility to be effective.

Similarly, market facilitation seldom requires large amounts of funding disbursed in a short period and it is difficult for facilitators to predict, up front, the total funding required for interventions, due to the necessary reliance on market actors to act and the need to be responsive and opportunistic. This is further complicated by the need to adjust or end activities as a result of market changes. Facilitating organisations therefore need long-term funding that is not entirely pre-determined and budgeted for specific activities. In addition, there is a need for unrestricted funding to cover core operational costs, and flexible funding that enables facilitators to take advantage, quickly in some instances, of opportunities as they arise. This necessary stability and flexibility, as well as the ability to move quickly, are of key importance to being an effective facilitator.

However, the need for flexible long-term funding does not always fit with donors' short-term funding horizons or the need to budget and negotiate pre-determined results. Part of the facilitator's role is therefore to educate and inform funders about the market systems approach and to secure agreement. This is often easier said than done; most funders cannot avoid the need to report certain results within a certain time period. Furthermore, most funders' systems are not set up to support organisations using the M4P approach and results often must be quantitative and related to access and usage, rather than to quality and welfare and/or qualitative changes in the market system. This leads to many tensions and pressures and, in some cases, to an inability to be an effective market facilitator. Altogether, it is important for facilitator performance to be viewed differently from traditional donor projects.

Funders also insist sometimes on 'quick wins'—which for the most part represent the antithesis of market system development. Quick wins sometimes force facilitators to disburse grants in amounts too large not to be distortionary, or to the wrong partners due to lack of market understanding. Further, there are some funders

who may only want to fund a specific market segment or market function and if there are no willing market actors, this can prove difficult.

However, there may be more flexibility from funders than facilitators think. It is important for facilitators to be clear on what donor processes/regulations really are, and to determine where there is flexibility. Rather than defaulting to a conservative interpretation, facilitators should strive to have open conversations with funders to determine what is possible. Having good relationships with donors, with frequent contact and the ability to explain plans and progress, is key.

The need for flexibility and the ability to adapt

FSD Zambia recognised that microinsurance was a new industry in Zambia and that considerable flexibility would be required if it was to be effective. An initial strategic roadmap was developed, under which annual work plans were prepared. These were then revisited regularly during TAG meetings. Interventions are planned, modified or dropped as needed, depending on their progress. The organisation's flexibility extends to the types of interventions that FSD Zambia has made and continues to make, including support for strategy development, technical assistance, capacity building, information sharing, promoting consumer awareness and financial cost sharing. The nature of support has been guided by analysis and by the need to adapt to the situation being addressed.

Source: FSD Zambia Case Study, p. 9.

6.2 Avoiding distortion when temporarily entering the market or working with one or two market leaders

Facilitators experience a tension between 'waiting' for market players to respond to signals and incentives and directly kick-starting activity. Inevitably, the more a facilitator does, the less space and incentive there is for others. This is especially so when there is pressure to 'get things done'. In practice, this 'delivering-versus-facilitating/pragmatic-versus-principled' intervention dilemma is one that facilitators encounter frequently. Resolving this tension requires facilitators to make a distinction between operational tactics and strategic goals. Major one-off actions to initiate activity, or to respond to an immediate opportunity/need (for example to engineer a market shift) can fit coherently within an M4P framework. However, if delivery of services in the market is the only activity undertaken or is repeated (with the same or another partner), or there is little sign of impact beyond what is achieved directly, then there is a danger that immediate needs take precedence over longer-term strategic goals, meaning the purpose of facilitation is ultimately neglected.

> It is seductive for facilitators to 'get in there' and 'do business' while offering 'demonstration case' as thin justification.

The rationale for engaging directly with financial service providers is ultimately about the wider demonstration effect and the need sometimes to 'do' in order to nudge market players. Experience shows that this can work, but equally that it may not. However, too much donor-fuelled support to de-fray innovation risk can, paradoxically, make providers more risk averse. This is not the only way to stimulate systemic change—there are other, less invasive intervention options, including, for example, information, linkage development and skills development.

Working with one provider

In FSD Kenya's intervention to support the development of M-Shwari, the exclusive partnership between the Commercial Bank of Africa (CBA) and Safaricom meant that FSD Kenya faced the dilemma of working with CBA exclusively or rejecting an influential opportunity. In spite of the risk of anti-competitive distortion, FSD Kenya saw the potential to shape CBA's thinking and approach, and thereby influence the wider market. Given that CBA's financial investment in the innovation dwarfed that of FSD Kenya's, it is unlikely that the competitive advantage conferred on CBA was unassailable—a judgement borne out by the emergence of competitors such as Kenya Commerical Bank, Co-operative Bank and Equity Bank. It is evident that the value added by FSD Kenya was not really financial, but took the form of insights and ideas which were readily understood by the wider market.

Source: FSD Kenya M-Shwari Case Study, p. 11.

6.3 Avoiding an over-reliance on 'doing' rather than facilitating

Facilitators that have success playing particular roles in a market may create an expectation of 'more'. Yet 'more' often leads to a more permanent presence, and to reliance on the facilitator rather than others being brought in to play that role. This reliance arises as a result of not developing a clear vision of how the market system will work in the future and how the intervention contributes to this vision, and importantly, not being realistic about how much time and effort will be involved. Without this, a void develops that allows 'direct delivery' to take precedence over facilitating others to 'do'. The longer this continues the more entrenched the facilitator inevitably becomes and the less the market develops. It is vital therefore for facilitators to signal clearly to stakeholders that their role is finite and that subsidy levels will reduce to zero. Facilitators must actively encourage stakeholders to increase their investment in critical market functions over time, to the point that functions are self-sustaining within the system. This often involves a willingness on the part of the facilitator to compromise in terms of service quality as market players take on the role in a manner that may not be as thorough or informed.

One of the most common areas in which facilitators run into capacity (and possibly incentive) constraints is with public sector regulator and research capacities. Developing public institutions is inherently a longer-term task but also one which combines political, personal and organisational elements. It is, by its nature, a long way from the 'technical short-term fix' emphasis of many standard development interventions. Addressing these involves first developing a view of the future—or different scenarios—that outlines intervention options. This might include, for example, advocating on the issue with industry stakeholders and government. Doing so will also identify what cannot (and can) be done with limited facilitator resources, including the task of turning around public institutions, and the inevitable trade-offs in quality in considering sustainable futures. Further, it is important when considering sustainability that the ongoing role is embedded within an institution and not only with one or two individuals who see the value.

Developing capacity for enabling regulation

From its early days, FSD Kenya has played an advisory role to key parts of government—especially the Central Bank of Kenya (CBK) and National Treasury. Much of this has been relationship-based advice as much as formally structured advice and inputs. Since 2013, however, FSD Kenya's input has been through a Policy Support Facility, a three-year, USD1.6 million project which sought not only to provide support/advice but also to do so in a more formalised, responsive manner that would help develop the capacity of the regulation/policy-making system.

In practice, following initial concerns over delays from the government side, FSD Kenya has assumed a role that is more proactive and involved than ever. This includes initial idea generation and concept note development, which it is well positioned to do given its knowledge of the industry and of the medium-term plan (a document which it helped to write); writing terms of reference and, from its networks, identifying suitable consultants (usually international); contracting them quickly (lack of bureaucracy helps here) and managing their inputs; and coordinating inputs from other stakeholders, including liaising with government departments. FSD Kenya is engaged throughout.

Government organisations are, of course, still in charge but for them—frequently overstretched and under-capacitated—the kind of flexible, supportive, formal and informal technical resource offered by FSD Kenya is ideal. Aware of the obvious downside of this involvement, with respect to sustainability and dependence, FSD Kenya initiated a new training and professional development programme for financial sector policymakers. While this may be a starting point for addressing the lack of staff capacity, it will not fill many of the roles FSD Kenya is currently playing.

Source: FSD Kenya Case Study, pp. 21 and 36.

6.4 Addressing the challenge of developing service markets

Similar to dilemmas faced by facilitators in developing public sector institutional capacity, developing service markets to make markets work better for the poor can be difficult. While direct subsidy for the delivery of financial services has long been disapproved of in official donor guidance, support services such as consulting and training have become one of the main areas of funding focus for donors. In this context, expectations on demand and supply sides are influenced and it becomes more difficult for a market to develop. While most facilitators realise they should not be doing 'direct delivery' in the core of the market, this is often not as clear when facilitating the development of support functions and they have a hard time determining who else will do/will pay in the future. Without a clear vision, the risk of becoming embedded in the market is high, especially when market capacity is not there. For facilitators to successfully facilitate the development of service markets, support functions need to be seen as a part of the financial market system and not a donor-supported activity. Facilitators must determine how they view the services market developing in the future without them, and work towards achieving that vision. They must identify and work with emerging players and those that could enter the services market, actively mentoring market players.

The challenge of developing service markets

In the absence of appropriate players—or of capacity and motivation within the insurance industry—FSD Zambia has often intervened directly to fulfil a supporting function. FSD Zambia has co-funded skills building to enhance the expertise of insurance companies and expose them to emerging trends and practices. This represents an important function, but no market player currently exists to perform this role satisfactorily and sustainably. In a similar vein, most research on microinsurance has been undertaken by FinMark Trust and FSD Zambia itself. This includes both supply-side research (e.g. viable business models and strategies for designing and delivering appropriate products) and demand-side research (e.g. investigation of client profiles, risk management needs and financial behaviour). In the long term, local organisations will need to be able to conduct this type of research. Potential users will also need to be willing to pay for it, either by commissioning it directly, by hiring consultants or trainers that have access to such research, or by subscribing to membership organisations that commission research on behalf of their members.

Source: FSD Zambia Case Study, p. 6.

6.5 Differentiating between the 'information' market function and the need for information and market knowledge for facilitation

> The engagement of a diverse spectrum of stakeholders—including financial service providers, technology providers, civil society actors, governments and donors—provides opportunities for dialogue and learning that are essential for large-scale systems change.

Information is a key benefit that facilitators bring to influence behavioural and systemic market change. Knowledge and evidence generated, collected, analysed and disseminated help catalyse the generation of new ideas and the adoption of improved offerings, technologies and business models that have the greatest likelihood of systemic level impact. Similarly, activities that develop new knowledge and insights into different aspects of the market system feed into the overall development of the market and guide the facilitator's range of work.

Addressing fundamental information constraints is, therefore, at the heart of the market development challenge and the facilitator's mission. Facilitators consciously play an active knowledge generation, management and dissemination role through an active and proactive knowledge management (KM) function. KM is fundamental to support programme staff in influencing market actors to ultimately change their behaviour for the benefit the poor. This role is central in defining the identity (or 'brand') and offer as knowledgeable, independent and as a thought-leader on financial inclusion. Facilitators put in place deliberate and proactive communication platforms to inform key stakeholders, solicit contributions to knowledge products and events, and disseminate featured resources. As a source of independent, high-quality, insightful analysis on financial services, facilitators are well positioned as the 'go-to' place for information on financial inclusion. This furthers their credibility as preferred partners for interested stakeholders.

At the same time, however, research and information is a critical function for an effective and inclusive financial market system and, in the long term, must be carried out by market actors and not facilitators.

Developing this market function is therefore an appropriate intervention for facilitators but is often difficult to do—in part because it is not always clear whose role it is (public, private or civil society) and in part because it is difficult to differentiate the internal 'knowledge management' function of a facilitator with the 'research and information' function in the market. This creates a tension between the need to have strong research and knowledge management capacity within facilitating organisations (in order to be effective facilitators), and the need to develop the capacity of the market to conduct and disseminate research and information as a market function, with the view that in the long term, the facilitator does not have a role.

FinMark Trust – a global survey implementer?

FinMark Trust (FMT) has been essential to the initiation, development and continuing conduct of FinScope in South Africa (and elsewhere). FinScope arose in response to the dearth of data on financial inclusion in South Africa and has effectively served to fill this information gap ever since. FMT's market analysis led it to understand that lack of information causes sub-optimal decision making by policymakers, advocacy organisations and financial service providers. However, it is less clear how well FMT understood the root causes inhibiting the emergence within the industry of this kind of information function. If information is so vital to a host of industry players, why hadn't a function emerged? Whose role is it to provide information within a market system—is it a 'public good'? Or a commercial function? Or both?

FMT was not established to become a global survey implementer; it was established to catalyse processes of change to lead to greater financial inclusion. This raises a question about what FMT's role should be now, given that FinScope has become a global brand. On the one hand, there is risk that with diversion of resources into survey implementation, FMT might become less insightful about constraints to access or the quality of access, less able to engage in complex policy issues and less effective as a change agent. On the other hand, there is a risk that FinScope's institutional home (FMT) is an entity largely funded by foreign aid, which might be a threat to its longevity and undermine the development of a permanent information or research function in the market system.

Source: FinMark Trust Case Study, pp. 9 and 11.

6.6 Knowing when the job is done

Consistent with M4P, the role of a facilitator is temporary. That said, while exit strategies may be developed and carried out for individual interventions, determining the exit strategy for a facilitator as an organisation is more difficult. As a whole, it would never make sense for a facilitating organisation to hand over what it does to another organisation. What it does, of course, should no longer be needed once 'markets work better for the poor'. This presents a dilemma in terms of how to define success. If the goal of a facilitator is to reach full financial inclusion, how is financial inclusion defined? Is 'access for all' enough? Is the goal 'formal' financial inclusion? And if someone becomes formally included, can we assume they stop using informal financial services? Does it matter? Is it good enough to have access and to use financial services? How do we measure the quality of those services? And how do we know if the welfare of the poor has improved by using financial services? When is inclusion truly reached and the work of a facilitator complete?

While it may be relatively easy to measure success in the core of the market—that is, more transactions and increased access—what about the public good and planning for the market system to take on key functions that facilitators 'do', such as research and information, advocacy, and in some cases, policy? And without an active facilitating organisation, will the quality and the focus on the poor remain?

What is the 'future' of organisations such as FSDs? As local entities, do they continue to exist as long as there is funding? Or, if truly facilitators, how do they recognise when facilitation is no longer needed and therefore cease to exist? Or do FSDs get to a point at which, like many other development initiatives, one of the tacit priorities for the future is the organisation's continuation (that is, the organisation is a stakeholder; the means to an end is becoming the end)? Facilitators must be able to identify when it is time to exit.

In some instances, 'exiting' means becoming commercial—when a facilitator and/or its funders decide the best route is to become a service provider filling a market function. While this may seem to make sense, especially if a facilitator has been 'doing' more than facilitating, it is often difficult to achieve true sustainability and allow other entities to be incentivised given the ongoing influence of donor funds, particularly in service markets. Facilitators must give this serious consideration before deciding to become a market actor.

Developing service markets

Microsave, in its third phase, was supported by FSD Kenya (and other donors) from 2004 to 2007 to enhance the capacity of the financial sector but also to develop providers of technical services to finance organisations. It did this through three related components: (1) working directly with providers (action research partners (ARPs)) in in-depth collaborations to change their systems and products, (2) using this experience to develop 'tool kits' which could then be applied to other ARPs and were available as a general resource and (3) mentoring and training (and certifying) a number of service providers and individual consultants.

Microsave, as a whole, was seen to be very successful, but this was mainly in relation to the direct positive impact on MFIs/banks who were its partners. An external impact assessment of FSD Kenya in 2009 praised Microsave for its 'hugely successful' work at the meso-level. But this was actually about the free direct delivery of technical assistance to banks; the review did not assess—because it was deemed too diffIcult—impact on the development of services. While doubtless funders can find justification in the 'need' of recipient organisations, this also reflects their own need to disburse 'support'—a fact of which stakeholders in Kenya, not least those in the financial sector, are completely aware. It is of note that Microsave, a much bigger organisation than in the past and with a strong reputation as a direct provider of services to finance service providers, is still donor-supported for most of its work.

Source: FSD Kenya Case Study, p. 22.

By definition, facilitating organisations should be temporary. And the ability to exit should be seen as a good thing; it means the financial market is indeed working better for the poor.

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About FSD Africa

FSD Africa is a non-profit company, funded by the UK's Department for International Development, which promotes financial sector development across sub-Saharan Africa. FSD Africa is based in Nairobi, Kenya. It sees itself as a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all, inclusive. It uses funding, research and technical expertise to identify market failures and strengthen the capacity of its partners to improve access to financial services and drive economic growth. It believes strong and responsive financial markets will be central to Africa's emerging growth story and the prosperity of its people.

FSD Africa also provides technical and operational support to a family of ten financial market development agencies or 'FSDs' across sub-Saharan Africa called the FSD Network.

About the FSD Network

The FSD Network is an alliance of organisations or 'FSDs' that reduce poverty through financial sector development in sub-Saharan Africa.

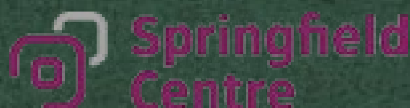
Today, the FSD Network:

- Comprises two regional FSDs in South Africa (est. 2002) and Kenya (est. 2013) and eight national FSDs in Kenya (est. 2005), Ethiopia (est. 2013), Mozambique (est. 2014), Nigeria (est. 2007), Rwanda (est. 2010), Tanzania (est. 2005), Uganda (est. 2014) and Zambia (est. 2013)
- Is a leading proponent of the 'making markets work for the poor' approach
- Specialises in a number of themes from agriculture finance and savings groups to payments, SME finance and capital market development
- Represents a collective investment of $450+ million by DFID; Bill & Melinda Gates Foundation; SIDA; DANIDA; Foreign Affairs, KfW Development Bank; the MasterCard Foundation; RNE (Netherlands); Trade and Development Canada; and the World Bank
- Spends $55+ million per year, predominantly through grant instruments
- Employs over 130 full time members of staff and a uses wide range of consultants

FSDs do not deliver financial services to the poor directly. Instead, they deploy financial resources, expertise and insights in collaboration with a range of public and private sector actors—from central banks and commercial banks to specialist training providers, telecommunication firms and microfinance networks - to create the market conditions that deliver financial inclusion, not only during the FSD intervention, but also beyond.

FSD Africa, Nairobi, Kenya
info@fsdafrica.org
@FSDAfrica

www.fsdafrica.org



The Springfield Centre
global@springfieldcentre.com
@TheSpringfieldC

www.springfieldcentre.com

Department for International Development
enquiry@dfid.gov.uk
@DFID_UK

www.gov.uk