

Facilitating the Market for Capacity Building Services

In markets with high levels of financial exclusion, actors in the financial system—financial service providers (FSPs), consumers, providers of financial system infrastructure and other market supporting functions,¹ regulators and other policy makers—often face capacity limitations. These include insufficient or inexperienced staff, lack of knowledge or understanding of the market, and limited financial literacy. Building sustainable and inclusive financial markets will require building the capacity of these actors. Funders that work to promote financial inclusion can play a very useful role in tackling capacity challenges, particularly if they provide support in a way that facilitates the development of a capacity building services market. This approach can benefit the whole financial market as opposed to the more common approach of providing direct support to one or a few actors in the market.

This Focus Note builds on the ideas discussed in “Facilitating Market Development to Advance Financial Inclusion” (El-Zoghbi and Lauer 2013)² and addresses the capacity issues faced by retail financial

service providers (see Box 1). Drawing on examples, this Focus Note addresses the question: what does it take to facilitate a *sustainable, commercially viable market* for capacity building services delivered to FSPs?

Because every market is unique, the specific steps to be taken by facilitators or funders (some of whom act as facilitators themselves) will vary from one market to the next and will change over time with the development of the market. Thus, this Focus Note is not intended to be a “how to” manual but rather it sketches out, for illustrative purposes only, three general scenarios for capacity building services markets—little demand, weak supply, constraints resulting from inadequate supporting infrastructure or a weak enabling environment—and the approaches that could be taken to facilitate the development of such markets.

Why focus on capacity building of FSPs? There are two reasons. First, while all market players are important to the development of a market, the fundamental basis for success of any significant and meaningful financial inclusion effort is the presence of sustainable financial service providers. Second, providers of capacity building services for FSPs can become commercially sustainable. In contrast, a sustainable capacity building services market for poor consumers and/or policy makers typically relies on long-term subsidies, either by government or donors.

While there has been significant attention given to capacity building of FSPs, too often support has led to inefficient delivery or has addressed those needs identified and prioritized not by FSPs but by funders. The market for capacity building services continues to be hampered by inappropriate subsidies that can distort the market. Specifically, such subsidies may dissuade capacity building providers from trying to build sustainable businesses and may reduce FSPs’ interest and willingness to seek services without donor subsidies.

Box 1. What are capacity building services for financial service providers?

Capacity building services refer to activities that strengthen the managerial and operational capacity of institutions. They include services that can help clarify an institution’s strategic vision, strengthen leadership skills, support managerial growth, develop and hone technical skills, streamline operational systems, improve organizational processes, and help with innovative work to develop new products.

Capacity building services may also be focused on individuals directly by improving leadership, managerial, and technical skills of individuals serving a particular sector.

Often capacity building is equated with training, but it is far more than this. Training is one method by which capacity can be strengthened, but other mechanisms include secondments, coaching, consulting services, and higher education.

¹ Examples include payment systems, credit bureaus, and collateral registries.

² This paper identified capacity building as one of the key areas for a market facilitator and therefore may be useful background for this Focus Note.

What would a dynamic and adaptable market for capacity building services for FSPs look like? FSPs would (1) know what their capacity building needs are, (2) have access to information about capacity building providers and their ability to serve the FSPs' needs, (3) value the services that meet their organizational needs and strategies, and (4) be able to afford those services. Today, most capacity building markets do not function this way.

Using a Market Development Approach

A market development approach focuses heavily on diagnosing the underlying causes of a problem rather than fixing only the symptoms and is therefore fundamentally different from "traditional" ways of delivering aid.³ Typically, aid programs identify a problem and deliver a solution that solves this problem. As an example, let's assume the problem we identify is women's lack of access to savings services. A typical aid program would look for ways to deliver savings services to women: create savings groups, provide a grant or loan to a financial institution to offer savings services for women, or train women on the importance of savings. This traditional approach focuses on providing savings services to women.

A market development approach would identify the reasons women lack access to savings services by asking a series of "why" questions: Why do financial institutions not serve women? If financial institutions do not see demand for these services, why is there no demand? If women are offered these services, why don't they use them? And so on. The result of this analysis may reveal a completely different problem from the one identified originally. For example, it could be that regulations require financial institutions to serve clients with unique identity cards and few women

in this particular society may have them. Efforts to encourage financial institutions to serve women may miss this fundamental problem.

Analyzing the market. Applying a market development approach to capacity building services requires first analyzing and understanding the demand for and supply of capacity building services. A key element of this analysis will include understanding the underlying *incentives*—both for FSPs to use such services and for capacity building service providers to offer them. A market development approach also involves understanding the constraints, which may be due to inadequacies in the market support infrastructure or the enabling environment.⁴

But who should undertake this market analysis and engage in the necessary data collection? It is critical that this work be done by those who are engaging in facilitation: this is the means by which the facilitator becomes known to and trusted by the market actors and acquires a deep understanding of the market.⁵

Nudging and making adjustments in a dynamic market. In addition to analyzing the problem—which requires data collection and market analysis—and analyzing how a market may evolve, facilitation involves "nudging" market actors to take certain actions. The tools used to nudge vary depending on market dynamics, actors in the market, and the historical precedent in the country. Because each market is unique, over time the facilitator(s) will need to adjust the interventions, the partners, and the expectations of how the market will change.

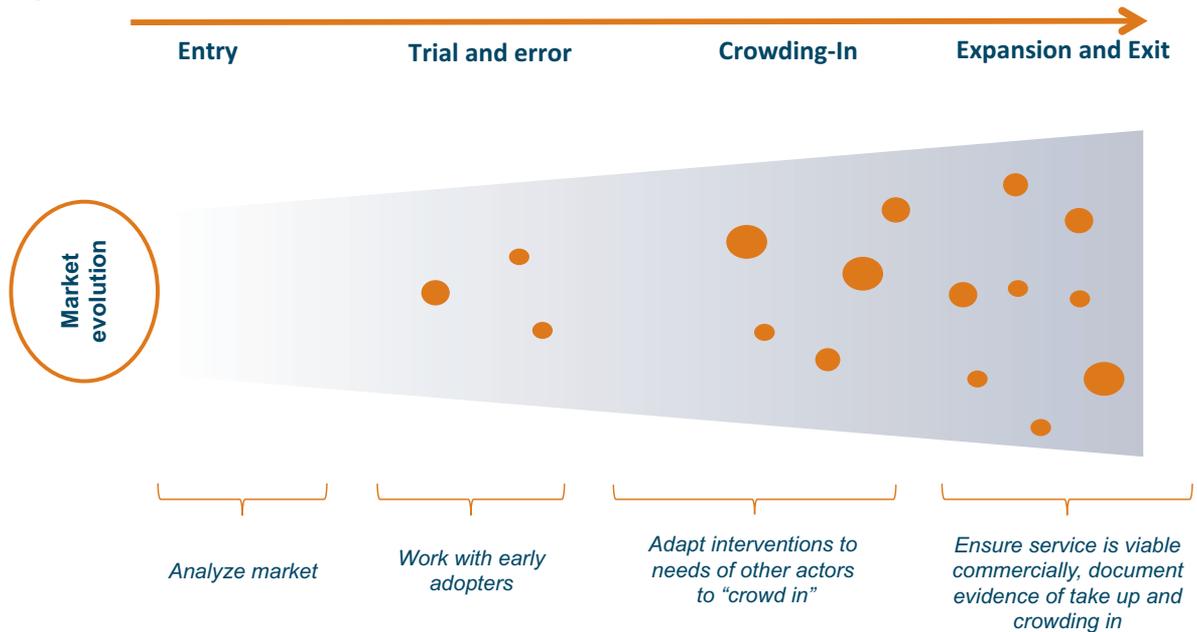
The facilitation process can be roughly divided into the following stages: entry, trial and error, crowding-in, expansion, and exit (see Figure 1). For example, let's assume we are in a market where FSPs do not innovate with products tailored for low-income consumers.

3 The concept of facilitation has been addressed in other publications. See DFID and SDC (2008), El-Zoghbi and Lauer (2013), and Koh, Hegde, and Karamchandani (2014).

4 The term "enabling environment" refers to formal and informal rules and norms. This would include applicable law, regulations, industry standards, codes of conduct.

5 See El-Zoghbi and Lauer (2013).

Figure 1. The facilitation continuum



Entry: The facilitator conducts the analysis and discovers that the underlying problem is that most FSPs do not undertake client research and then apply it to product development. In mapping the market, the facilitator sees that FSPs do not know or appreciate that getting consulting support on new product development can add value to their business. The facilitator also realizes that it needs to show capacity building providers that there may be sufficient interest from FSPs to warrant investment into this product line.

Trial and Error: At this stage, it makes sense for a facilitator to work with FSPs and capacity building providers that are willing to use client research and product development services. These "early adopters" are selected based on their having demonstrated an interest in experimenting, the commitment—of both time and leadership—to undertake the work, and the resources to invest internally. The facilitator would broker a relationship between an FSP and a capacity building provider to develop products relevant for low-income consumers. Depending on the capacity of each of the actors, the facilitator may provide technical support to one or the other or both. Once there is some initial success with early adopters—both FSPs and capacity building providers—the facilitator will need to shift focus.

Crowding-In: The facilitator no longer is trying to prove that consulting for product development works, but is now working with a larger number of actors who can **adapt** their business to offer new product design techniques. This second set of partners may differ from the early adopters and may have a different set of challenges. For example, the capacity of this second set of partners to deliver services to FSPs might be more limited than that of the early adopters. The facilitator would need to address this constraint before "crowding in" will occur in the FSP product development service market.

Expansion and Exit: As FSPs increasingly hire capacity building providers for product development, the facilitator once again needs to shift focus to address remaining constraints to enable **expansion** of the market beyond the partners with whom it has worked so far. In this expansion phase, the facilitator may focus on interventions that could improve the information channels used by FSPs to learn and hear about capacity building services. For example, during this expansion phase, the partner may be a trade association or other source of information for referrals and information on capacity building providers. Essentially this phase needs to cement the commercial viability and long-term sustainability of the service.

As part of this final phase, the facilitator documents evidence of market actors responding to the set of interventions used to crowd-in market actors. This evidence is used by the facilitator to demonstrate to stakeholders that interventions have yielded systemic changes in market behavior, representing a clear signal that the facilitation for this particular problem is done and the facilitator should exit.

Capacity Building Services Types and Their Commercial Viability

The market for capacity building is broad: there are many different services that may have different constraints and opportunities. Table 1 provides a simple typology of the services that are used to strengthen the capacity of FSPs and their staff.

Understanding the commercial viability of each type of service requires analysis of the underlying business model for delivery of the service. Some services require up-front development, but may have broad use cases beyond one FSP and thus a more standard delivery approach. Standard training courses on financial management, ratio analysis, human resource development, risk management, or other similar topics that most FSPs require would fall in this category. While they may have high development costs, these services can become commercially lucrative quickly, provided that quality is high, marketing is done right, and the provider has a good reputation. Other services, such as consulting services, require tailoring at the firm level, which

requires a high level of expertise at the capacity building provider. But even consulting services have degrees of standardization.

The Harvard Business Review⁶ offers a framework that captures three types of business models for traditional consulting service firms: the solutions shop, the value-added process business, and the facilitated network model. In the solutions shop model, the consulting firm is structured to solve complex problems by delivering a high-caliber set of consultants that use their judgment to solve problems. This type of service is not repeatable but is highly tailored and becomes commercially viable through a high-priced fee-for-service model. In the value-added process model, the consulting firm focuses on more standard business problems within a defined scope using more standard processes that can be controlled and repeated. Fees for this model are more modest and are linked to delivery of outputs. Finally, in the facilitated network model, the exchange of products and services is facilitated among peers. Customers pay into the network; the network pays the service provider.

Experience to date has shown that supporting the development of a sustainable capacity building service provider that delivers standardized materials is easier than developing a firm that provides highly tailored services (see Box 2). At the same time, these providers must evolve to stay relevant, otherwise their services quickly become obsolete.

Note that not all services can be commercially viable on their own. As in any business, some services may

Table 1. Typology of services for capacity building

Type of client/Format of service delivery	Firm-level services	Individual-level services
<i>Standard delivery approach</i>	<ul style="list-style-type: none"> • Standard training courses 	<ul style="list-style-type: none"> • Standard training courses • Higher education
<i>Tailored delivery approach</i>	<ul style="list-style-type: none"> • In-house training • Advisory/consulting services • Secondment/Peer to peer 	<ul style="list-style-type: none"> • Coaching and mentoring

⁶ <http://hbr.org/2013/10/consulting-on-the-cusp-of-disruption/ar/1>

Box 2: Micra in Indonesia

In 2006, Mercy Corps supported the creation of an organization to provide rating and consulting services to FSPs in Indonesia: Micra. Mercy Corps favored establishing a domestic player to help keep costs low while building on local expertise. Micra obtained an operating license in 2007.

From the outset, Micra had a guaranteed source of business: the government mandated that regional providers be rated. With 50,000 providers operating in Indonesia, Micra has conducted over 465 ratings of 324 microfinance institutions (MFIs) and 600 assessments for the government program (in collaboration with M-CRIL). Micra built its business model around a standardized rating product and priced its ratings at one-third of the price of international raters.

The standardized methodology and the analytical rigor of the ratings proved a useful training tool for building the capacity of young talent. This allowed Micra to introduce other services—research and consulting—and slowly build its credibility beyond ratings. Staff “graduated” from the rating work to performing other services; to avoid conflicts of interest, staff did not engage in both parts of the business (ratings and other services) at the same time.

However, Micra management found it challenging to raise the level of the staff to be at the cutting edge of the needs of the market. Micra relies on a combination of international experts and local staff to provide more specialized services, but it struggles with balancing highly skilled expertise and local affordability.

Source: Interview with Natasa Goronja, International Finance Corporation

emerge as “cash cows” while others may need to be part of a suite of services to be commercially viable. Some services, for example consulting services, can help inform and lead to the demand for other services, such as training and *vice versa*. Understanding the potential for commercial viability of the service up-front is important and should be a key driver in determining the intervention used by the facilitator.

Markets with Little Demand for Services

If it appears that there is little demand for capacity building services in a particular market, it is important to understand why before embarking on a course of action to remedy the problem. Most often, the main causes for limited demand for services are that FSPs (a) do not perceive a need for services, either because they lack awareness of their own needs or they lack understanding of the market potential to expand offerings into new markets or (b) do not have the funds to pay for such services, as is the case with many small FSPs. Others may be comfortable with their current scope of operation and the returns they earn from their current client base. Or, they may just be followers and not leaders in their industry.

Facilitation would always start with identifying those FSPs that could serve as the demonstration case and potentially crowd-in others. In markets where the demand for capacity building services is low, the facilitator would need to help cultivate demand for a service for which the potential user has no awareness. Facilitators can help FSPs diagnose their needs and craft capacity development plans that are aligned with their business plans and strategic vision.

A facilitator can also cultivate demand by supporting exposure opportunities, which in turn helps the FSP to understand where it may benefit from external assistance. These opportunities can come in many forms, including the following:

- **Site visits.** FSPs can be funded to visit similar or more advanced markets to see how institutions have evolved over time. These visits often provide a way for FSPs to visualize how the market may develop in their own country. The more advanced institutions can serve as a resource from which the FSPs can seek information and advice in the future.
- **Secondments.** Funding senior or mid-level staff from FSPs to work onsite at more advanced FSPs

is especially relevant for FSPs in isolated or small markets where there is little competition from which to learn. Secondments for institutions that participate in an international network are typically easy to arrange.

- **Peer exchanges.** Peer exchanges differ from site visits as the exchanges generally involve bringing several peers together to address specific issues such as development plans for future growth, portfolio quality and default management, or strategic planning and governance. Peers often create support networks or communities of practice to continue their mutual learning.
- **Consulting/coaching services.** In some cases, FSPs can obtain exposure through direct consulting or coaching services. Facilitation can be useful in the initial interaction—for example, helping the FSP to identify, select, and hire the service. If necessary, the facilitator can provide a subsidy (see Box 3).

Markets with Weak Supply of Services

In some markets, there is a lack of supply of capacity building services that meet the needs of FSPs. Under

the market development approach, the facilitator first needs to understand and consider the underlying cause(s) of the problem, rather than the perceived symptoms. Facilitators can help address the issues through a variety of means.

In general, supply can be weak for one of the reasons noted below. For each, there is a discussion of possible solutions although the discussion is for illustrative purposes and is not intended as a replacement for sound market analysis.

- **Lack of knowledge or information about the needs of FSPs that serve low-income and poor clients and/or the value proposition for serving such FSPs (e.g., lack of incentives to enter the market).** Facilitators can provide information to capacity building providers on the market potential of serving FSPs. Facilitators can provide direct *temporary* funding to capacity building providers that do not yet perceive pro-poor FSPs as potential clients. For example, many microfinance or banking associations could offer capacity building services to their members; supporting these associations by improving their knowledge of their members'

Box 3. Cultivating demand for executive coaching

Exposure to services—especially those that are new or not easily accessible—can stimulate demand. An example of this is the Leadership Program offered by Women’s World Banking (WWB), a global nonprofit devoted to giving low-income women access to financial tools and resources. The Leadership Program exposes senior managers and leaders in microfinance to in-house training, executive coaching, and peer exchanges. WWB identified coaching as a potential area of focus through an analysis of FSPs’ development needs. The analysis showed that coaching services were new to most of the FSPs’ CEOs, and they didn’t perceive the value of the services. At the same time, research has shown that the more senior a leader becomes, the more she needs leadership development tools.

The coaching program began with a four-day workshop and was followed by six individual coaching sessions delivered by Creative Metier, a global capacity-building provider founded in 2006 and headquartered in the United Kingdom. Creative Metier works with institutions committed to increasing

financial inclusion (MFIs and networks, investors, and international development agencies) to build their human and institutional capacity. During the workshop, managers and leaders identified areas for growth and development; the executive coaching supported them over six months to hone their skills to address these development goals. WWB’s program provided a partial subsidy for the coaching services; participants were required to cover partial costs of the coaching program and pay for travel to the initial workshop.

Following the initial coaching, participants began to advocate for the service and to integrate coaching within their professional development plans for their senior teams. Creative Metier estimates that at least 10 percent of participants asked and paid for coaching themselves and examined how the service could be made available within their organizations, building relationships with local, regional, or global suppliers.

Source: WWB, Creative Metier, and interviews with participants.

needs for such services could enhance their service delivery.

- **Lack of willingness to invest in light of FSPs' lack of understanding of the value proposition.** For capacity building providers that already understand the potential of the pro-poor FSP market, there may still be weak supply due to their skepticism regarding the possibility of garnering interest among FSPs. Facilitators can provide support to develop outreach or marketing that better articulates the value proposition to pro-poor FSPs. While this approach of working with one or more capacity building providers ("picking winners") has its limitations, it may also serve to crowd-in interest from other providers to enter the market. Additionally, facilitators may help capacity building providers capture "change stories" that can be used to demonstrate the effectiveness of their services to FSPs' top management. This requires that either the facilitator or the capacity building providers have a follow-on plan to monitor and measure progress long after their services have been delivered.⁷
- **Lack of investment by capacity building providers in developing relevant services because FSPs are unable or unwilling to pay for them.** Facilitators can *temporarily* provide subsidies to enable FSPs to access capacity building services and to select their preferred suppliers. This can be done using progressive cost-sharing, with the FSP bearing an increasingly greater portion of the cost over time. However, on their own such subsidies will not necessarily create a sustainable market for *quality* capacity building services. Quality of services may continue to be an issue if market standards are unclear, unevenly practiced, or easily ignored, and FSPs simply seek the lowest cost service.⁸

While subsidies can be used to help FSPs pay for capacity building services, how these subsidies are delivered differentiates good from bad practice. Subsidies should not distort market signals. This

means that the full price of the capacity building service should be made transparent to the FSP. This enables the capacity building provider to signal the commercial value of the service and to eventually build a brand around these services.

- **Lack of experience or capacity to meet the needs of the FSPs.** Subsidies can be used to provide technical assistance to capacity building providers that lack the experience or capacity to serve the specific needs of pro-poor FSPs. The facilitator must decide whether to provide the subsidy to the FSP(s) or the capacity building provider(s). Funding an FSP will enable them to pay for capacity building services. But funding a capacity building service provider is a surer means of getting the provider to improve the quality of its services. Improving the quality of services should (when such improvement is known by those who need the services) lead to increased demand, which then can lead to new (and needed) services and innovative methodologies.

Facilitators may consider funding a lead firm⁹ that can deliver quality services to FSPs and capacity building providers alike. However, a decision to fund only one provider must be done carefully and must be based on the quality of the provider and its services. Support directed to only one firm poses risks: distorting the market, reducing providers' incentives to develop materials, and unfairly eliminating market players. If supply is fragmented (i.e., there are many small and diverse capacity building service providers and quality is uneven), facilitators should try to avoid subsidizing content development for specific providers and take actions that create a level playing field.

MicroSave, initially a project and now an international financial inclusion consulting firm, is often used as an example of a successful capacity building service provider. Initially established as a facilitator to

⁷ It is good practice for service providers and FSPs to document changes together, establishing relationships between capacity building efforts and institutional development.

⁸ Addressing this issue requires additional and sometimes more costly measures to make capacity building interventions stick. These additional measures for FSPs may include coaching for senior leaders, peer learning for technical training, or working with in-house trainers.

⁹ Firm that has been selected by a facilitator as a partner with which to conduct a demonstration project. Lead firms are not necessarily the largest or the best in the market, but they are often those that exhibit some existing market advantage such as market share, leadership, or innovation capacity.

support the market for capacity building, MicroSave worked directly with FSPs while also building the capacity of capacity building providers to provide these similar services over time. MicroSave presents lessons for both what to do and what not to do when facilitating market development for capacity building services. MicroSave succeeded in supporting many FSPs and capacity building providers, but in the process became a capacity building provider itself and decided to “exit” facilitation and register itself as an independent company (see Box 4).

Markets with Weak Support Functions and Enabling Environment

Although the commercial viability of capacity building services for FSPs depends largely on the core supply-demand exchange, the market support infrastructure

and the enabling environment are also critically important.

Market support infrastructure. Supporting functions such as market information can be particularly relevant to building a market for capacity building services.

Information and research. Improving the availability, accessibility, and accuracy of market information and research on both the demand and supply side can help improve market dynamics. Information on FSPs, trends in financial services, and gaps in service delivery are all important dimensions in helping capacity building service providers recognize the potential of a market where their services can be further developed. Such information can also help capacity building service providers make informed choices about technical and strategic content as

Box 4. MicroSave exit from role as facilitator: Gain or loss?

The MicroSave Project started in 1998 in Africa with support from UNCDF and the UK Department for International Development.^a Its stated mission was “to strengthen the capacity of financial service providers to deliver market-led financial solutions.” As a facilitator, MicroSave planned and implemented a well-thought-out business model based on articulating the value proposition of capacity building services to the market. Specifically, MicroSave supported the creation of capacity building providers for pro-poor FSPs. These FSPs, which included Equity Bank, acted as laboratories and demonstration vehicles for the rest of the industry.

Toolkits and resources for capacity building providers were developed from working with partners and these were disseminated widely free of charge for other capacity building providers to use. By 2007, MicroSave had significantly influenced more than 50 FSPs globally that experienced business growth as well as strategic and operational changes.

Several important lessons emerge from MicroSave’s experiences that are relevant to funders seeking to support building markets for capacity building services. The MicroSave experience shows how a facilitator can effectively create the market for capacity building services by working with both FSPs and emerging capacity building providers. MicroSave created public goods, enabled FSPs to directly engage with capacity building providers, and documented case studies to

demonstrate the value proposition of receiving high-quality service.

However, in the process of working with FSPs “in the laboratory,” MicroSave became a capacity builder for the African microfinance industry, rather than remaining a facilitator. At the direction of its donors, MicroSave formally exited its role as facilitator in 2007 and started to provide services directly to financial institutions beyond Africa on a commercial basis. The MicroSave completion report highlights this as a shortcoming in MicroSave’s role as a facilitator, and MicroSave itself states that while it has profited as an organization, the capacity building industry as well as many FSPs lost a valuable resource. The report notes that a facilitator must ensure the services and functions that it is created to provide are ultimately delivered and purchased by market actors rather than delivered by the facilitator and paid for by its donors. (See the “who does, who pays” framework in Table 2.^b)

a. CGAP joined in 2000; the Austrian Development Agency and the Norwegian Agency for Development Cooperation both joined in 2003. The project also received funding from the Ford Foundation.

b. Using such a framework is useful to diagnose who is delivering and who is paying for services over time, making the market facilitation role much more visible early in the process.

Source: MicroSave Project Completion Report (April 2008); Graham Wright, Managing Director, Microsave

Box 5. CGAP courses and networks

From 1996 through 2008, CGAP invested in a core set of courses to help (a) build the capacity of MFIs and (b) improve and standardize the quality of training on several operational microfinance topics, including financial analysis, interest rates, business plan development, and delinquency management. These courses were delivered through certified training institutions in Africa initially, and later in Asia, Eastern Europe, Middle East/North Africa, and Latin America. The institutions selected by CGAP as training partners included private companies, training institutes, and MFI networks. Most training partners had already been offering training services and viewed the CGAP courses as an opportunity to expand their offering. Over the 12 years of the initiative, more than 45 partners offered the CGAP courses in multiple languages.

CGAP initially developed these courses in 1996–1999 based on surveys of MFIs and training providers, both of which identified priority topics where MFIs were struggling with their operations. When working with the selected training institutions, CGAP also provided training of trainers, workshops on course design, and ongoing workshops and coaching on improving the quality of trainings and developing follow-on technical assistance. Several global training

partners adjusted the course materials, developed their own content, and expanded their services to MFIs. However, some partners struggled to offer quality courses and to evolve over the long-term in response to the challenges of managing commercial operations. During the life of the training initiative, CGAP required that the training partners offer the courses with cost recovery. This was extremely challenging and represented a unique approach at a time when many donors and others were offering fully subsidized courses including travel, per diem, and lodging for training participants in Africa and other regions. To help expand the reach of the training initiative, after eight years of offering the courses, CGAP made the course materials publicly available in English and other languages.

While the CGAP courses had been effective in creating a focus on training by the training partners and improving their credibility as valuable service providers, these courses were insufficient to serve the commercial needs of such providers. The training partners needed to continue to innovate and develop their own content. Many lacked the capacity to do so, and the support they received did not help them identify new content and develop it commercially.

well as their business development strategies, value proposition in the market, and relationships with clients. Information on services can help FSPs assess the value-for-money of capacity-building services, to identify and select among service providers, and to understand services that they may not even be aware exist.

Often, this information and research is not available (or accessible or accurate) due to the costs involved in gathering and disseminating the information. In general and in the financial inclusion space, knowledge is a public good.¹⁰ Thus facilitators can play a critical role (similar to the role of the state¹¹) in providing access to reliable and accurate market information.

Curriculum development. For some technical topics or issues, training may be a desired delivery mechanism for improving capacity. But capacity building providers may not have the sufficient knowledge or expertise to develop training materials on these topics. To spur the development of training services, facilitators may want to invest in creating curricula to help capacity building providers learn about issues that they are currently not addressing in their services (see Box 5). These materials can be made publically accessible to any provider or individual interested in acquiring them.

Enabling environment. The market for capacity building services for FSPs is typically not heavily regulated although it can benefit from certain quality-

10 A public good has two critical properties: (i) the consumption by one individual does not detract from availability and consumption by another ("non-rivalrous consumption") and (ii) no individual can be excluded from enjoying the good" (Stiglitz 2007).

11 "The central public policy implication of public goods is that the state must play some role in the provision of such goods; otherwise they will be undersupplied" (Stiglitz 2007).

control mechanisms, including industry standards, certifications, and codes of conduct.

Industry standards. Supporting the establishment of industry standards can eventually lead to improved quality of capacity building providers. Industry standards help establish a common understanding as to what constitutes quality standards. They can help differentiate capacity building providers that apply the standard from those who fall short. Standards can accelerate competition among providers in a market and improve transparency around the type and quality of capacity building services offered, which can lead to both improved quality and lower costs for FSP clients. Facilitators can work with trade associations to develop the standards by facilitating dialogue among capacity building providers and by documenting the standards, making these accessible through public forums.

Certifications. In some instances, industry standards may be insufficient on their own, and certification of attainment of a specific level of quality of performance is required. This may be needed, for example, if FSPs have had poor experiences with the existing set of capacity building providers and there is a need to signal that these providers have made significant investment to upgrade the quality of service. Certifications may also be relevant in some cultures where this is the norm among professionals. The entity providing the certification would need to be a recognized body in the country.

Codes of conduct. Codes of conduct serve as a voluntary mechanism for signatories to agree to adhere to specific practices. Typically codes of conduct are established through a recognized body, such as a trade association. Facilitators can support a trade association to establish codes of conduct if this would improve the value proposition of capacity building services to FSPs.

Important Considerations for Market Building

The lead firm advantage. Working with a lead firm is often the most appealing and effective way to crowd

in other providers to enter the market or improve the standards by which others in the market must compete. However, working with a lead firm can provide the firm with an unfair advantage. Facilitators should structure partnerships with lead firms to mitigate this risk. The subsidy should be limited in duration and size, and the firm should also invest its own resources in the new business. The arrangement should also specify that the lessons learned from the lead firm will be made publicly available.

Sustainability. Supporting a sustainable market requires thinking beyond the delivery of a one-time capacity building service. Regardless of whether a firm is for-profit or nonprofit, it should be able to cover its operational costs, invest in developing new services to remain relevant in the market, and provide high-quality services that are relevant to the emerging needs of pro-poor FSPs.

Guidance from the Making Markets Work for the Poor framework (DFID and SDC 2008) promotes the use of two important questions—“who does?” and “who pays?”—to help facilitators design interventions that will promote the development of a sustainable market. For the future, facilitators should envision what the end state may look like in a better functioning market by answering these questions for each function. See Table 2 for an illustration of a sustainability analysis in a hypothetical market. In other markets, facilitators could envision other scenarios for the future.

Leadership and human development. Ultimately a large part of capacity building is about human development. At both the FSP and the capacity building provider level, leadership and vision are needed to create the right environment for individuals and institutions to advance and, of particular importance to financial inclusion efforts, to innovate. This means that facilitators should seek partners that have or demonstrate the potential to have strong leadership that understands the need to invest in their human resource capacity.

Beyond leadership, capacity building providers must also develop their own staff to respond to the needs

Table 2. Illustration of sustainability analysis for training courses

Functions	Current Situation		Future Vision	
	Who does?	Who pays?	Who does?	Who pays?
Curriculum development	NGO/facilitator	Donor	Regional training network	Overhead charged on training delivery
Training of trainers and refresher courses			Universities	Overhead charged on training
Marketing			Private training provider	Overhead charged on training
Course delivery				Training registration fees
Updating of curriculum				Profits of training provider

Source: Adaption from DFID and SDC (2008)

of the market. This can be difficult when the pool of staff from which to draw has limited exposure to financial inclusion issues. Capacity building providers must provide the opportunities for their staff to gain expertise in areas in which they themselves may have never worked in the past.

Conclusion

Facilitating a market for capacity building services for FSPs requires actions and interventions based on the specific market's dynamics. In particular, facilitators should understand the players—capacity building providers and FSPs—and the players' knowledge and understanding of each other. Do the capacity building providers know about pro-poor FSPs, their needs, and the value proposition of servicing them? Do the FSPs understand their own capacity issues and the possibility of increasing capacity through engaging a capacity building provider? Do the FSPs know who the providers are and how the services they offer may be valuable? Are there industry standards that apply to the capacity building providers, and if so, is compliance with such standards transparent and meaningful in the market place?

Facilitation can take place only if there is an understanding of the market actors and market dynamics. Markets with weak demand require interventions that help FSPs identify and learn from more advanced markets where their institution needs strengthening. This initial exposure and diagnosis can lead to greater demand for services

over time. Markets where the demand already exists but where the quality of the supply is weak require a different approach. In those markets, facilitation needs to diagnose the specific constraints that prevent the capacity building providers from understanding and meeting the demand and then design interventions that help address those constraints. In some markets, the constraint or the opportunity involves the market's supporting functions (such as information) or the norms and rules in the market (such as strengthening standards or codes of conduct).

The instruments or interventions used in the process of facilitation—such as subsidies, information, and peer exchanges—are all meant to be temporary and to prompt reactions from the market and the actors within it.

Using a market development approach can benefit the whole financial market as opposed to the more common approach of providing direct support to one or a few actors in the market. Today, vibrant capacity building service markets are few and far between, often because of the persistence of poorly delivered donor programs that subsidize the delivery of capacity building services, reducing the incentives for capacity building providers to commercialize these activities and reducing the likelihood that FSPs pay for these services themselves. Nonetheless, in the cases where this approach has been used, the outcomes are more lasting and the potential for change far greater than a direct delivery approach.

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