

Reflection 30. Principles vs. Practices

In a few of the blogs in this series I’ve mentioned the distinction between principles and practices. In this blog I’ll explain the distinction more fully, why it is important and when it is particularly important.

Principles vs. Practices

I started my career in financial services working in a microfinance institution in Sri Lanka. Because of my experience I was selected to work for DFID in Bangladesh. I started my work in Bangladesh with such naivety, thinking I understood so much about microfinance. I learned all over all again. When I travelled to Kenya to work in Africa, I found microfinance works differently in Africa than in South Asia. Today, I acknowledge that I will continue to learn until I retire.

Whenever, someone moves outside their financial services market whether individual or an institution, they must learn quickly. Applying everything you know from your existing market isn’t likely to work well.

When M-Pesa moved around East Africa, to Afghanistan, when it was trialled in South Africa, when it launched in Pakistan, very few countries experienced the same level of success that M-Pesa had experienced in Kenya. Why was this so?

Why did M-Pesa work so well in Kenya? There were many factors, trust, carefully designed UI/UX, an extensive distribution network, a banking sector backbone which could provide liquidity, a strong value proposition – with send money home. There was support from the regulator. I talk about some of these factors in other blogs. Let us use mobile money to explore the difference between principles, that apply everywhere and practices which are market specific.

Principles	Practices
Trust, access, price, communication	Products: Send Money Home (Kenya), payment of salaries (Afghanistan) betting (Uganda). But products obeying the principles.
Customer support: Call centres	Other support for customers, how agents support customers.
Operations: Cybersecurity, strong back office	Field operations, choice of agents, marketing.
Ease of interface and user experience	Other support for customers.
Agent Management	Nature of agent management, agent aggregators. Agent business case: Revenue shares, agent network strategy.
Cash in Cash out	Agent distribution strategy.
Liquidity Management	The best way to distribute cash. Who is liquidity provided through? Banking system, community finance, value chain actors
Bill Payments	Which bill payments?
Ecosystem development: Partnerships with the banking system.	How the partnerships are used, e.g., Kenya (to support merchant services)
National Identity	How identity is used, tiered access.

Under principles you see the factors that are necessary for success in every market, under practices you see the interpretation of some of these principles. In some countries some of the foundations were compromised. Limitations in national identity in Uganda and Tanzania meant it was much more difficult for people to sign up for mobile money, more difficult therefore, to drive transactions. It affected the nature of development of the ecosystem.

This concept of principles verses practices applies way beyond mobile money. The concept is useful when thinking through policies, ecosystems, products, moving markets, and more.

When is understanding Principles vs. Practices most important?

- i. *Policy*: the system must focus on laying down and regulating principles – but not being directive on practices.
- ii. *Ecosystem Development*: Ecosystem development can be severely affected by failings at the level of principles.
- iii. *Market introductions*: When moving to new markets, for example, M-Pesa to Ethiopia or Kenyan banks to Uganda – there is a temptation to simply replicate products and services from one market to another an approach which can significantly constrain expansion in the new market.
- iv. *Human resource management*: Each country has its own labour laws and practices, but the principles of good HR management are universal.
- v. *Loan portfolio management*: The principles of loan monitoring and follow up are established, but the mechanisms which work best in each market are often based around practices.
- vi. *Product design*: Digital products, must all work well, with good user experience, be appropriately priced, offer good access, product support, but which products work best in each market, that would be a practice.

If this reflection speaks to you... speak to me so that we can inspire change, together.

David Cracknell

Additional reflections in this series can be downloaded from www.firstprinciplesinfinance.com