



# *The Financial Inclusion Compass 2019*

**The e-MFP Survey of Financial Inclusion Trends**

By Sam Mendelson



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# Foreword

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I am very pleased to present this, the second e-MFP Survey of Financial Inclusion Trends: the *Financial Inclusion Compass 2019*.

In 2018, we started thinking about how e-MFP could leverage our broad and unique multi-stakeholder membership, plus our key position within the sector, to help drive financial inclusion forward. e-MFP is the largest multi-stakeholder platform in the inclusive finance sector, and it's core to our work to stimulate discussion and debate between members and key sector stakeholders and provide a forum to explore, analyse and present what's going on in the sector and where it is all heading.

We started with a desire to find a new way to do this and ended up with the idea for a sector-wide trends survey – which was published as the *Financial Inclusion Compass 2018*. It was widely read and we got positive feedback, and it was immediately clear that the project should be continued. We solicited further feedback on how to improve it, and this spring started the whole process once again. What you see here is the end-result of all that work – a longitudinal snapshot of industry attitudes, ideas, concerns and aspirations from all corners of the sector, and which we're confident will be of great value for practitioners, observers, investors, researchers and teachers alike.

On behalf of everyone involved in the *Compass*, I'd like to thank all respondents who gave their time to take part in this important initiative. We're grateful too to the e-MFP Board for so wholeheartedly standing behind this project. Finally, thanks must go to the project lead Sam Mendelson, as well as the other staff members – Gabriela Erice, Daniel Rozas, Gemma Cavaliere, Niamh Watters, Camille Dassy and Rachele Civitareale – who provided such valuable support along the way.

**Christoph Pausch**  
Executive Secretary  
European Microfinance Platform



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# Introduction

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“Follow your compass,  
not your clock.”

Andrea Jung

Aesop tells the tale of a giant old oak tree by a river, next to some slender reeds. The wind blows gently, and the oak stands proudly still while the reeds bend and sway. The oak laughs mockingly at the reeds, observing that the slightest breeze makes them bow their heads while he stands still – upright and firm. But then the wind gathers force and becomes a great storm. The reeds bend and yield to the tempest – but they survive. Yet the steadfast oak can only stay still on his spot, is uprooted and falls, never to rise again.

The lesson here – of the value of flexibility over stubbornness, of adaptation over blind resistance – has been taught to children for generations. And it remains a worthwhile message for the financial inclusion sector too, facing a tempest of change and with hard decisions to make on how to square the circle of the social roots of microfinance – its mission to serve, protect, educate and help – with the pursuit of scale and commercial viability, of adaptation to rapid technological change and new entrants muscling in. Can the traditional products, services, providers and business models survive? How much must they bend to the winds of change in order to not themselves be uprooted, but without losing their mission and identity as they do so?

This is the second *Compass* survey. The 2018 edition started with a blank page – and was well received. The paper that came out of that survey touched on many of these issues: where does the obligation to protect clients start and end; what response is due to sector entrants that threaten incumbents and lack understanding of serving the poor; and the corollary question to their answers – *where are we going, and how will we get there?*

The *Financial Inclusion Compass 2019* naturally expands on many of these questions – asking new ones as well – and of a larger and more diverse group of people. The thousands of scores they generated and the tens of thousands of words they wrote don't condense easily into a simple thesis. It would be impossible that they could. But they do reveal fascinating insights into the concerns and anticipations, the forecasts and the imminent decision-points of a wide range of inclusive finance stakeholders. We hope it is a valuable resource for all stakeholders as they make their decisions. And we hope that in years to come, it will serve as a time capsule from the past. In the meantime, we at e-MFP hope that this second *Compass* is an interesting read, and like all good compasses, will help navigate what's ahead.

**Sam Mendelson**

Financial Inclusion Specialist  
European Microfinance Platform

# Executive Summary



The *Financial Inclusion Compass 2019* presents the findings of the second annual survey of sector stakeholders, which began with feedback solicitation in Spring 2019, and ran over the summer.

As in 2018, the survey had compulsory and optional components. In the first part of section 1 (“Where Are We Going?”), respondents were required to provide a rating of between 1 and 10 on the importance of each of the 20 Trends. Comments on those trends were optional. In the second part of section 1 (“Coming into View: New Areas of Focus in Financial Inclusion”), respondents had to choose their top five choices, and could provide comments on those Areas of Focus if they wished. In the second and third (optional) sections, there were open-ended comment boxes on five qualitative questions: challenges, opportunities, FSP categories, new entrants, and forecasts for the future. For the first time, the survey was conducted in Spanish and French in addition to English.

There were 165 *complete* responses to the survey. The top ten countries in terms of respondent location were Luxembourg, France, United States, Belgium, India, Netherlands, Germany, Peru, Switzerland and Bangladesh. Respondents were asked to provide their predominant geographical focus of work. Of the 165 complete responses, 62 work ‘globally’, 45 in Sub-Saharan Africa, 19 in South and Central Asia, 17 in Latin & Central America, 6 in Central and Eastern Europe, 5 in the East Asia Pacific, and 3 in Western Europe. 57 worked for financial services providers, 42 were consultants/support service providers, 29 were funders, 13 were researchers, 13 worked for sector infrastructure organisations, and 11 for organisations that did not fit into any of these categories.

## The Top Five Most Important Trends in Financial Inclusion



In terms of the Importance of Trends, **Digital Transformation (institutional-side)** came in clear first place, followed by **Client Protection**, **Digital Innovations (client-side)**, **Regulatory Environment** and **Social Performance and/or Impact Measurement** (which was up from 10<sup>th</sup> in 2018). Other significant upward movers included **New Categories of FSP** (6<sup>th</sup>, up from 14<sup>th</sup>) and **New Focus Areas – WASH, green, housing, education, etc.** (11<sup>th</sup>, up from 16<sup>th</sup>). Significant downward movers were **Expanding to New Client Segments** (17<sup>th</sup>, down from 9<sup>th</sup>) and **Governance** (7<sup>th</sup>, down from 3<sup>rd</sup>).

Analysing by respondent organisation type, **Digital Innovations (Client-Side)** was 3<sup>rd</sup> overall, but a lowly 7<sup>th</sup> among FSPs – who made up over a third of respondents (and in fact who typically rate *all* trends higher than other respondent groups, making this particular gap all the more stark). Some light may be shed on this in the qualitative responses later on: is client-facing technology reaching an inflection point of over-hype, and are FSPs (the ones who have to invest in these technologies, implement and monitor them and get feedback from clients) more jaded as to their utility compared to funders, networks and the like who love these ideas only in the abstract? By contrast, **Human Resources** was *much* more important to FSPs than other groups – also borne out in the comments from practitioners who are concerned about

training (especially in digital financial services) and poaching. Finally, the starkest difference by institution type is in **Industry Reputation** – low overall at 13<sup>th</sup>, down from 11<sup>th</sup> last year, but markedly important to FSPs, who rated it almost a full point higher than respondents as a whole, an astonishing two points higher than infrastructure organisations, and 4<sup>th</sup> in their own group's rankings. This result is similar to 2018, when FSPs gave Reputation a remarkably high average score of 8.8. The worrying inference here might be that practitioners are seeing signs in the field that are unseen by raters, regulators, funders and academics, and which FSPs believe will cascade into reputational fallout?

In terms of trends by geographical area of focus, **Client Protection** was ranked anomalously low (in 12<sup>th</sup>) by respondents working in Latin America. **Governance** seems to be of low importance to respondents working in South and Central Asia. And finally, MENA respondents rated **Maintaining/Deepening Outreach to the Very Poor** with the lowest average score of any group for any Trend, and in clear 20<sup>th</sup> place (by contrast, South and Central Asian respondents had it in 2<sup>nd</sup> place). Interestingly, though, MENA respondents rated **Expanding to New Client Segments** in 2<sup>nd</sup> place – almost 2 full points higher than the average. The irresistible conclusion must be that among the relatively small number (8) of MENA respondents, the target groups they're keen to reach are the higher-income segments.

The second part of the survey looked to the 5-10 year horizons, and which **New Areas of Focus** will see the most significant developments. Respondents' rankings were converted into a NAF Index score (0-100 scale).

## The Top Five New Areas of Focus



Once more, **Agri-Finance (52.0)** was the top Area of Focus – by a considerable margin again. **Climate Change Adaptation/Mitigation (43.3)** and **SME Finance (40.0)** again round out the Top Three – although in reversed order this year. **Finance for Refugees/Displaced Populations (22.0)** is rated highly in 4<sup>th</sup> place – a growing focus borne out by the comments too. **Energy (17.9)** and **Housing Microfinance (16.2)** have both dropped, from 5<sup>th</sup> and 3<sup>rd</sup> to 7<sup>th</sup> and 8<sup>th</sup> respectively. **Education (15.2)** is up from 12<sup>th</sup> to 9<sup>th</sup>. The new entrant – **Finance for the Urban Poor (11.5)** – comes in at a middling 12<sup>th</sup>.

Assessments for the prospects of **Agri-Finance** are extremely high in South and Central Asia and low among researchers. Asian respondents are strangely bearish about the prospects for **Climate Change Adaptation/Mitigation**, which by contrast are extremely high for respondents working globally, funders and infrastructure organisations. **Housing Microfinance** is low, especially among those working globally or in sub-Saharan Africa. A relative paucity of written comments too means that sadly, despite the immense importance of housing and its effects on many other development outcomes, respondents generally foresee limited prospects for development. And **Finance for Women**, while in 6<sup>th</sup> place, is held up by researchers, who offset the extremely low interest in this area among funders and infrastructure organisations.

The *Compass* is mixed methodology, and asks respondents to provide comments on the Trends and New Areas of Focus in section 1, and several optional open-ended questions in section 2 – on challenges,

opportunities, opportunities for different provider types, new entrants' activities and incumbent responses – and section 3 – on forecasts for the future. While it's impossible to extract a single message from such a heterogeneous respondent group and diversity of questions, there are several overall themes and takeaways:

- Respondents see many **challenges**, and are concerned about both External challenges (including politics, financing, climate change and regulation); and Institutional challenges (notably product development, mission drift, client education, overindebtedness, digital transformation and sustainability of business models).
- Many challenges – including the importance of education, concerns about mission drift, lack of client-centricity in product design, stalled momentum on client protection, obsolescence of traditional providers in the face of a 'race to the bottom' by FinTechs – feed into issues on business models – **profitability and sustainability**. Is serving excluded groups at scale, protecting them from harm or malfeasance, offering them useful and client-centric products (with education where necessary), all the time adapting to new digital challenges and doing everything in a financially sustainable way... is this even possible?
- At the same time, respondents are optimistic about progress in several areas and see myriad **opportunities**. Improvements in understanding clients' needs, product innovations, client protection standards, efficiency gains making outreach to new excluded segments more sustainable – there is much to be excited about. Respondents described real progress being made in product diversification and understanding client financial behaviour and mind-set. Respondents are also positive about the strides being made in social performance measurement.
- In terms of **providers**, once more there was virtual unanimity in the need for a variety of providers in the future, but with much more detail on why that is, and who they will be. Downscaling banks, cooperatives, NGOS, FinTechs all have a role to play, serving different segments and with seats for everyone at the table.
- There is clearly a significant shift in the sector underway – the **digital transformation** of providers. This is a trend that is important to all stakeholder groups, whether in the defensive, reactive sense 'Digitise or Die!'), or the proactive sense of opportunities to reduce costs, improve efficiencies and reach further down the income ladder.
- There's another component to technological transformation, and that's the growth in **digital financial services** – the client-facing part of innovation. The sector is less consistently bullish here, seeing it as less critical, and with an element of hype or faddism – especially among FSPs, who see its costs, limitations, and its supply-driven nature.
- Overall, the 2019 *Compass* reveals a sector at an inflection point, or a crossroads. In aggregate, there is a real sense of a body of stakeholders with *individual* interests, passions and projects, but a *collective* soul-searching for financial inclusion's purpose (finding unsaturated markets? financialising the excluded? opening accounts? protecting the poor from shocks? expanding technology's reach?) and what genuine *impact* really means in a framework of growing impact- (and green-) washing. It is in this sense that naming this publication the *Compass* has turned out to be quite apposite – if by accident. A broad 'pulse taking' of the financial inclusion sector reveals divergence of priorities and convergence of bewilderment as to what we're all doing here, and where we're trying to go.

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# Background & Methodology

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The 2019 *Compass* survey began in Spring 2019 with a solicitation for feedback on last year's inaugural survey. The second online survey launched in late July and closed in early September.

Based on feedback from e-MFP's members and other sector stakeholders there were several iterative changes made.

1. Open-ended questions on 'policy-making wish lists' and 'hopes for the future' (both of which provided some creative and interesting material last year) will be only included on a periodic basis going forward – so they missed out this time round. In their place, another question on financial service provider categories was added to the one from last year.
2. The survey was translated into Spanish and French this year to increase representation from Latin and Central America and Francophone Europe and Africa. 76% of responses were to the English survey; 16% to the French and 8% to the Spanish. The responses that were received in French or Spanish have been translated by the e-MFP team and are reproduced here only in English.
3. While mindful that changing the list of trends to be ranked for their importance limits ability to compare results year-on-year, a couple of trends have been merged, and a couple of others unbundled. This has been done to increase the focus of responses, and ensure that the list is as comprehensive as possible. The same has been done with the New Areas of Focus question, which includes an extra focus area this year – Finance for the Urban Poor.
4. In the 2018 *Compass*, no comments were directly attributed to any respondent, but rather just to that person's geographical area of focus, organisation type and the like. This year, respondents were asked to opt in if they wanted their comments attributed, so some of the responses included in this paper will have names – and some will not.

As in 2018, the survey had compulsory and optional components. Besides information about the respondent, in the first part of section 1 ("Where Are We Going?"), respondents were required to provide a rating of between 1 and 10 on the importance of each of the 20 Trends. Comments on those trends were optional. In the second part ("Coming into View: New Areas of Focus in Financial Inclusion"), respondents had to choose their top five choices, and could provide comments on those Areas of Focus if they wished. In sections 2 and 3 there were open-ended comment boxes on five qualitative questions.

# Survey Respondents

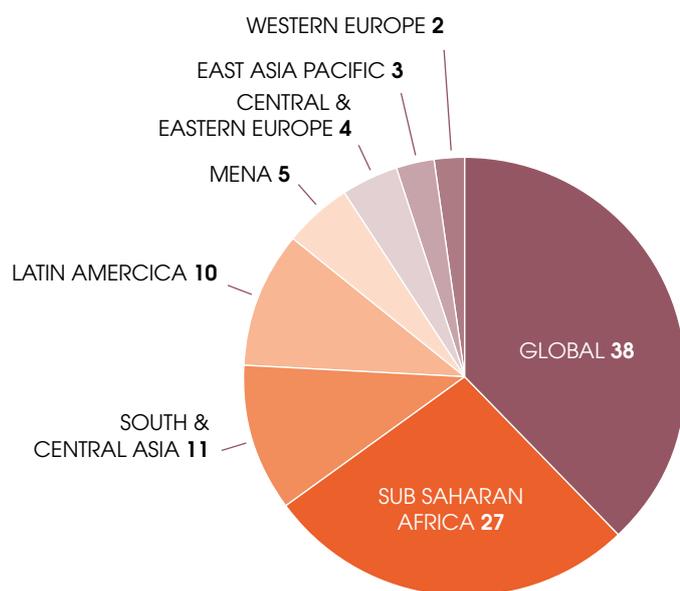


## Respondent Profiles

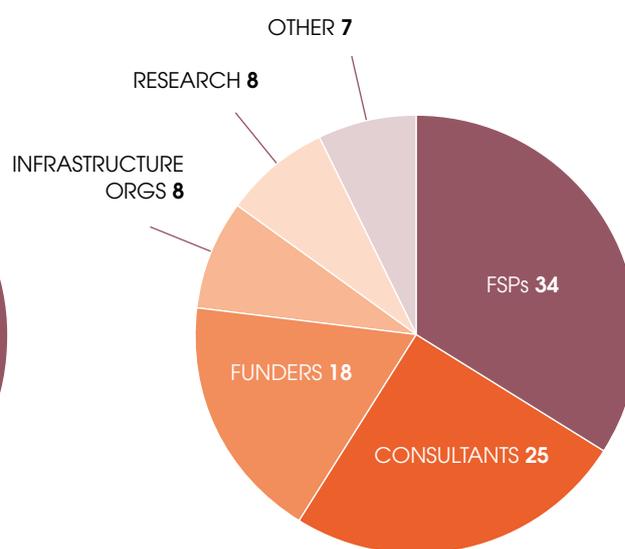
There were 165 *complete* responses to the survey. The top ten countries in terms of **respondent location** were Luxembourg, France, United States, Belgium, India, Netherlands, Germany, Peru, Switzerland and Bangladesh.

Respondents were also asked to provide their predominant geographical **focus of work**. Of the 165 complete responses, 62 work 'globally', 45 in Sub-Saharan Africa, 19 in South and Central Asia, 17 in Latin & Central America, 8 in MENA, 6 in Central and Eastern Europe, 5 in the East Asia Pacific, and 3 in Western Europe. Figure 1 shows the distribution by percentage.

Respondents were also asked to give the **type of organisation** they work for. 57 worked for financial services providers, 42 were consultants/support service providers, 29 were funders, 13 were researchers, 13 worked for sector infrastructure organisations<sup>1</sup>, and 11 for organisations that did not fit into any of these categories. Figure 2 shows the distribution by percentage.



**Figure 1**  
Respondents by Geographical Focus of Work (%)



**Figure 2**  
Respondents by Type of Organisation (%)

<sup>1</sup> All the organisation types included drop-down sub-menus. Infrastructure Organisation – an uncommon term – was included to capture local or regional associations or networks, regulators, credit bureaus, supra-national associations (such as e-MFP, MIX, SPTF), or networks of FSPs, etc.)



# Where Are We Going?

## The Compass Trends

*Give the following financial inclusion trends a score between 1-10 corresponding to their importance.*

And the first one now  
Will later be last  
For the times they  
are a-changin'

Bob Dylan

### Overall Rankings

Figure 3 shows the average perceived importance of the 20 Trends, in descending order.

### Figure 3

#### Importance of Trends - Ranked

Rank	Trend	Average Score	2018 Rank
1	Digital transformation (institutional-side)	8.31	New
2	Client protection	8.14	1
3	Digital innovations (client-side)	8.01	5 <sup>2</sup>
4	Regulatory environment	7.55	2
5	Social performance and/or impact measurement	7.54	10
6	New categories of FSP (FinTechs, consumer lenders, banks downscaling)	7.53	14
7	Governance	7.42	3
8	Maintaining/deepening outreach to the very poor	7.32	4 <sup>3</sup>
9	Product development or innovative end-user finance	7.28	6
10	Human Resources and institutional capacity development	7.21	8
11	New focus areas (WASH, green, housing, education, etc.)	7.12	16
12	Market information & infrastructure (credit bureaus, reg. reports, etc.)	7.01	7
13	Industry reputation	6.87	11
14	Non-financial services	6.81	17
15	Use of new outreach/marketing channels (e.g. agents)	6.80	13
16	Institution-level information (ratings, audited reports, etc.)	6.56	15
17	Expanding to new client segments	6.55	9
18	New investor or funding channels	6.35	18
19	Research	6.33	19
20	Fund management practices	5.67	20

2 Called 'Technology and New Client-Side Delivery Channels' in 2018

3 Called 'Outreach to Low-Income Segments' in 2018

## Responses by Geographical Focus of Work and Respondent Organisation

Predictably, respondents' assessments of the importance of trends varied considerably based on where their work is focused, and what type of role their organisation plays in the sector. Figure 4 shows the Top 5 trends among the three largest respondent groups, by geographical focus of work and organisation type.

### Figure 4

#### Top 5 Trends by Respondent Category

##### Global

- 1 Digital transformation (institutional-side)
- 2 Digital innovations (client-side)
- 3 Client Protection
- 4 Regulatory environment
- 5 SPM and/or impact measurement

##### Sub-Saharan Africa

- 1 Digital transformation (institutional-side)
- 2 Client protection
- 3 Governance
- 4 Digital innovations (client-side)
- 5 New categories of FSP

##### South & Central Asia

- 1 Client protection
- =2 Maintaining/deepening outreach to the very poor
- =2 Regulatory environment
- 4 SPM and/or impact measurement
- 5 Human Resources

##### Financial Services Providers

- 1 Digital transformation (institutional-side)
- 2 Client protection
- 3 HR & Institutional Capacity Development
- 4 Industry Reputation
- 5 Regulatory Environment

##### Funders

- 1 Digital transformation (institutional-side)
- 2 Digital innovations (client-side)
- =3 Client protection
- =3 SPM and/or impact measurement
- 5 New categories of FSP

##### Consultants/Support Service Providers

- 1 Digital transformation (institutional-side)
- 2 Governance
- 3 Client protection
- 4 Digital innovations (client-side)
- 5 New categories of FSP

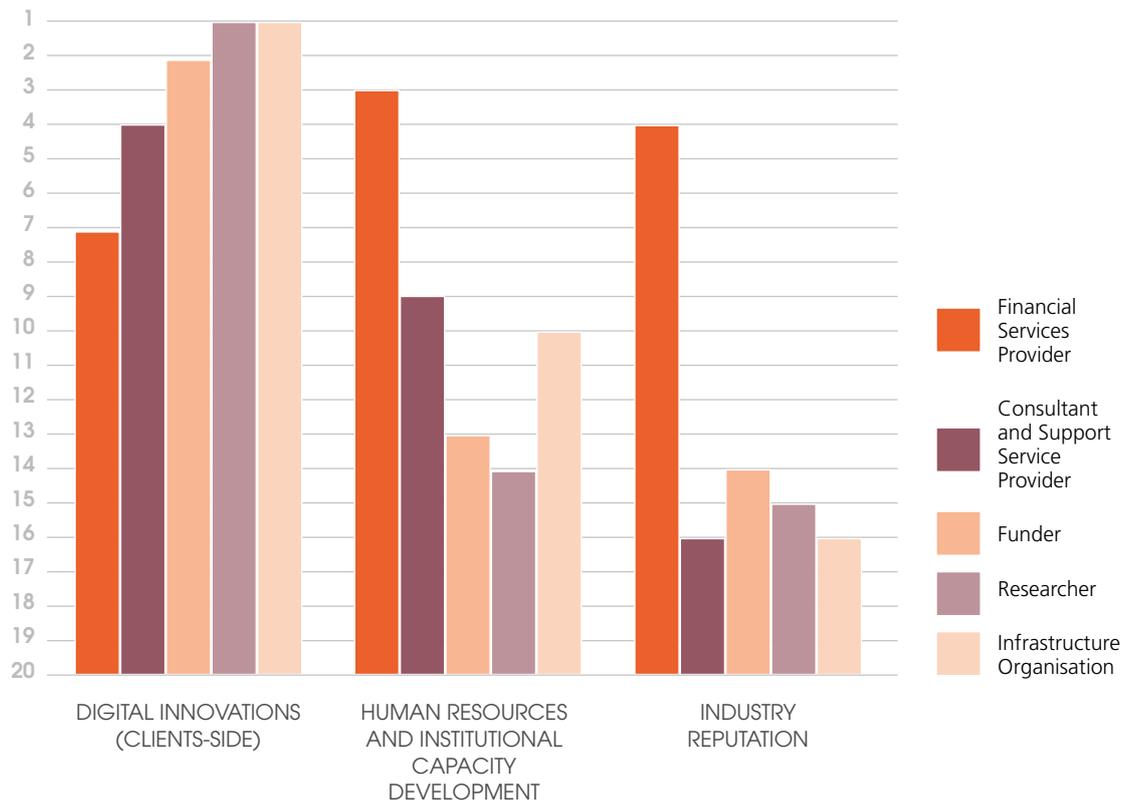
Figures 5 and 6 show comparisons of selected trends' rankings (1 being highest; 20 lowest), by organisation type (Figure 5) and geographical region of focus (Figure 6). They reveal some intriguing disparities.

**Digital Innovations (Client-Side)** was 3<sup>rd</sup> overall, but a lowly 7<sup>th</sup> among FSPs – who made up over a third of respondents (and in fact who typically rate *all* trends higher than other respondent groups, making this particular gap all the more stark). Some light may be shed on this in the qualitative responses later on: is client-facing technology reaching an inflection point of over-hype, and are FSPs (the ones who have to invest in these technologies, implement and monitor them and get feedback from clients) more jaded as to their utility compared to funders, networks and the like who love these ideas only in the abstract?

By contrast, **Human Resources** was *much* more important to FSPs than other groups – also borne out in the comments from practitioners who are concerned about training (especially in digital financial services) and poaching.

The starkest difference by institution type is in **Industry Reputation** – low overall at 13<sup>th</sup>, down from 11<sup>th</sup> last year), but markedly important to FSPs, who rated it almost a full point higher than respondents as a whole, an astonishing two points higher than infrastructure organisations, and 4<sup>th</sup> in their own group's rankings. This result is similar to 2018, when FSPs gave Reputation a remarkably high average score of 8.8. The worrying inference here might be that practitioners are seeing signs in the field that are unseen by raters, regulators, funders and academics, and which FSPs believe will cascade into reputational fallout?

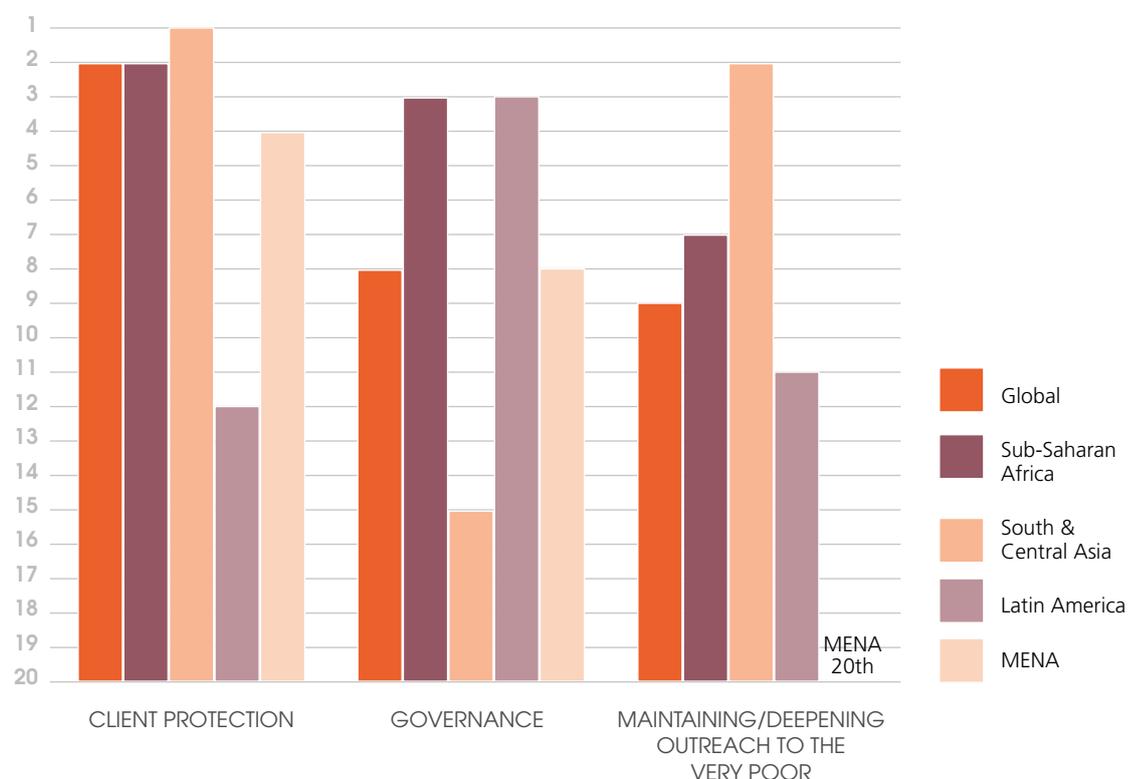
**Figure 5**  
Rankings of Selecting Trends by Respondent Organisation Type



A couple of other anomalies of interest include that: 1) Consultants/Support Service Providers (an admittedly heterogeneous group including many who are not involved directly in SPM) ranked Social Performance and/or Impact Measurement way down in 12<sup>th</sup> place – despite how much of their work is concerned with this area; and 2) Funders – normally so vocal in their advocacy of better governance – had it down at a middling 10<sup>th</sup>.

Turning to selected trends by geographical area of focus, **Client Protection** was ranked anomalously low (in 12<sup>th</sup>) by respondents working in Latin America. **Governance** seems to be of low importance to respondents working in South and Central Asia. And finally, MENA respondents rated **Maintaining/Deepening Outreach to the Very Poor** with the lowest average score of any group for any Trend, and in clear 20<sup>th</sup> place (by contrast, South and Central Asian respondents had it in 2<sup>nd</sup> place). Interestingly, though, MENA respondents rated **Expanding to New Client Segments** in 2<sup>nd</sup> place – almost 2 full points higher than the average. The irresistible conclusion must be that among the relatively small number (8) of MENA respondents, the target groups they’re keen to reach are the higher-income segments.

**Figure 6**  
Rankings of Selected Trends by Respondents’ Geographical Focus



## The Top Five Compass Trends: What Respondents Wrote

### 1. Digital Transformation (Institutional-Side)



A new entrant (or at least an evolution of the lowly-ranked Back Office/Delivery—Side Innovation from last year) this year's top trend exemplifies 1) the ubiquity of this topic on everyone's minds; 2) the power of a rebrand; and perhaps even 3) the powerful profile of the European Microfinance Award during European

Microfinance Week, which in 2018 focused primarily on this very issue within the *Financial Inclusion through Technology* theme.

But it's true that you can't blink without seeing a webinar, plenary, briefing paper or interview on this subject, which is deeply divisive. Is digital transformation a risk to traditional MFIs who don't know how to stay competitive? Is it an opportunity for new entrants to muscle in?

Respondents were forthright – appropriate for a subject that monopolises debate and tops trends rankings. For many, transformation is little more than survival – the *“need of [the] hour for all those who are yet to embrace becoming efficient and mitigating various risks”*, according to Anil Kumar Gupta, a Partner at a global support provider working in South Asia, with benefits to be found, according to a Pakistani CEO, in *“efficiency, outreach and even client centrality”*. Transformation can *“provide faster and affordable services and reduce operational costs”*, and *“minimise both time and resource management”*, according to an Indian Association leader and a Bangladeshi practitioner respectively.

**“Are MFIs ready for the future?  
If not, they have to transform.”**

Policy Adviser at INGO

Easier said than done, though. Several respondents from traditional providers pointed to lack of resources as the main challenge, and observed too that there needs to be serious buy-in from board, management and staff for it to work, not least because it is not a one-off decision, but rather *“an ongoing program as a part of continual improvement”*, according to an Indian practitioner, which requires, according to a Philippine practitioner, *“the whole institution...to [first] be fully educated on the importance of digitisation”*.

And while *“this topic's importance has been neglected towards the client-side one, whereas for the traditional MFIs digital transformation is crucial”*, according to a microfinance officer at a Europe-based network, a few respondents noted the artificiality of distinguishing institution-side and client-side technology innovations. Transformation should mean more than the trend of *“digitalising as much as possible all work processes and gain efficiencies...interface with the clients should be digitalized, too...they expect financial service providers to keep up with the trends even if they prefer personal contact”*, according to an independent consultant in Bosnia. Another went further: *“Digital transformation is so much more*

4 The histograms in this section illustrate the distribution shape of responses for that trend. On the X-axis is the importance score (1-10), on the Y-axis is the number of responses for each score.

than just channels (agents) and digitising processes ... it should encompass all parts of the organisation, from IT systems to risk management; from product innovation to user experience", writes the head of a global support provider.

Nevertheless, not everyone is quite so bullish about the need for MFIs to transform to survive. Patrick McAllister, co-founder of a TA provider in the US smells hype: "While important for institutional efficiency and competitiveness in crowded markets, I think the pendulum may have swung too far into panacea territory".

Alex Silva, President of a Latin America-based support provider, put it even more succinctly: "Flavour of the month. Probably over-rated".

"Digital transformation is more an economic benefit (to the institution) than (a) financial inclusion tool".

CEO of NBF in South Eastern Europe

## 2. Client Protection



Top of the list in 2018, Client Protection is only nudged into second spot in 2019 by a (semi) new entrant – a trend that now more specifically focuses on digital transformation. But the sheer weight of comments that respondents provided indicates that, whatever the progress made in this area over the last decade,

the work is far from done. And respondents see Client Protection as part of a broader focus on client-centricity.

Client-centricity is right at the hub of success in financial inclusion – impacting product development by traditional providers, the success (or regulatory response to) new entrants, the growing concern about data protection – the list goes on. For respondents, client protection is like the Hippocratic 'Do No Harm' first principle – without it, "we lose out on the mission and transformational aspect of our work", according to Roshaneh Zafar, Managing Director of a Pakistani NBF, because "clients can bear less risk so deserve more protection with it", according to a US-based TA Provider. By contrast, with it, "[we are] respecting them, delivering them from exploitation and adding innovative services to meet their growing needs and demand", writes Christudas KV, Lead Adviser on Sustainable Banking at an Indian Small Finance Bank.

"Client protection starts with client centricity. Both should be at the core of our financial inclusion practice."

Business Development Manager at Lebanese MFI

Predictably, the debate has moved on from general notions of interest rate transparency, responsible sales and fair and respectful treatment of clients (the underpinnings of the Client Protection Principles) to whether these legacy principles are fit for purpose in a digital finance world. The growth of digital credit means that *"data privacy and client protection need a great deal more focused attention than they are currently receiving"*, writes the head of a global support provider. And for the most part, respondents are fairly negative about how the sector is adapting to these new demands. Writes Elisabeth Rhyne, then-Managing Director of a US-based infrastructure organisation: *"We've had a lot of innovation, but client protection hasn't kept up"*.

Increasingly, attention in the sector is moving towards data protection and privacy – paralleling concerns in developed markets. Online security has far to go, believed Njang Sylvester Mukong, a Branch Manager in Cameroon, and *"data protection or redress mechanisms for vulnerable groups have not yet received sufficient attention"*, argues Yasmin Olteanu, a researcher in Germany. The consequences of the sector's failing to get ahead of this issue, particularly the *"lack of understanding of [clients'] data [being] taken"*, will have *"repercussions on client protection"*, writes Apricot Wilson, Head of Impact at a Luxembourg-based funder.

**"Microfinance's origin was due to the needs of the clients; as such, client protection has to be the critical focus for the sector."**

Senior Manager of Indian Microfinance Association

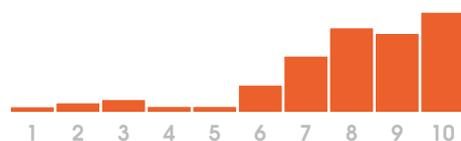
Moreover, it's not *just* a problem of lack of attention to the issue. There are structural, systemic, incentive misalignments that exacerbate failures and threaten institutions and clients' wellbeing alike. *"The fact that consumer protection is viewed as an impediment to businesses' 'bottom line' means not as much attention is paid to it as there should be"*, argues Eric Noggle, Senior Director of Research at a global think-tank. This also means that client protection is driven *"mainly from a regulatory front; there are few institution-driven initiatives"*, according to Sylver Kyeyune, Head of Risk Management at a Ugandan microfinance bank.

Despite this general concern, there are reasons for optimism. Client protection in DFS is *"starting to be discussed (ex: SPTF digital credit guidelines)"*, writes an Alternative Delivery Channels Expert at a Group of MFIs. And *"regulators from different countries have increased their requirements in terms of client protection standards"*, says Joris Crisà, Inclusive Finance Director at a microfinance rating agency.

**"With each new product or delivery channel, we seem to have to rediscover the risks to the client"**.

Managing Director at US-based Fund Manager

### 3. Digital Innovations (Client-Side)



Up from 5<sup>th</sup> last time (when it was called ‘Technology and new client-side delivery channels’), into the top three in 2019, this topic generated dozens of responses, reflecting the pace of innovation, the growing push-back (particularly on client protection and digital

financial services) and the threat to traditional providers that new entrants pose. There’s no doubt these issues are of paramount importance – and overlap both with other trends, particularly institution-side digital transformation, and new FSP categories.

This isn’t a fad. As a trend, it will “*remain high for some time to come, especially as open banking / open APIs become the norm*”, writes the head of a global banking association. And the benefits for clients are clear. They need access and prefer personal communication to resolve their financial needs, but they value fast access – and digital innovations can provide it. Reduced internet access costs and more social media access have improved technology literacy, according to Dr. Sharaf Alkibsi, CEO of an MFI in Yemen. “*The correlation between mobile penetration rates and financial inclusion has been always positive in several studies we have conducted. Therefore, digital innovation can improve financial inclusion*”, he says.

There was significant concern among respondents that technology, for all its potential, risks a two-tier financial inclusion sector, where “*those with access to better technology get better services*” create a “*playing-field that needs to be levelled*” (writes Patrick McAllister, co-founder of a US-based TA Provider) and which risks “*disrupting the social fabric of community-based lending*” (writes Anil Gupta, working for a TA Provider in South Asia). Moreover, how much of this is just top-down, supply-side innovation? There is “*very little demand from the client side*”, claims the CEO of an MFI in Eastern Europe.

A dissenting minority of respondents bemoan the hype. The Managing Director of a global Fund Manager argues it’s “*important that it does not distract from ensuring access to bread and butter products and services*”, while the Executive Director of a global infrastructure organisation observes that, while important, “*traditional service provision will still continue for a while to be the “standard”*”. In this continuing period of transition, “*ultimately the FSPs that provide the most client-centric solutions in the most trust-worthy manner will win*”, argues Graham Wright, group Managing Director of a global support service provider.

“**Breaking barriers of distance and time, the use of technology becomes indispensable**”.

Álvaro Javier Guerrero, Fund Manager in Colombia

### 4. Regulatory Environment



In 2018, changes – for better or worse – in the regulatory environment were high on respondents’ radar. And the tone was mostly negative – that cohort rated it 2<sup>nd</sup> in importance overall, and a lowly 14<sup>th</sup> in whether it was moving in the right direction...or put another

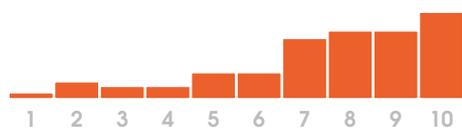
way – it *isn’t*. The consensus then was that regulators are mostly failing to keep pace with rapid change, especially in technology, and their priorities are misplaced – failing to facilitate when innovation needs a helping hand or to intervene when the vulnerable are threatened; and interfering when the market should be left to sort itself out.

This year, the ranking is down by a couple of places, as is the average importance (down from 8.2 to 7.5). But the concerns remain. Regulators are slow and lost when adapting to new entrants, and generally speaking, respondents worry that there is too *little* regulation, rather than too much – especially with the possibility of market crises again.

On technology, it's clear that regulators are not yet on top of things. Tim Crijns, a Fund Manager in the Netherlands, argues that effective regulation is needed *"in order to mitigate the downside risks of digital models"*. Graham Wright, Group Managing Director of a global consultancy and TA provider, and who has long warned of these risks, says that in most countries, *"regulation is struggling to keep up with the digital revolution - central banks urgently need training and TA to respond to the rapidly evolving landscapes they supervise"*. Philippe Guichandut, Director of inclusive Finance at global Funder, believes legislation will be necessary in the FinTech market, *"where regulation is still very weak in most cases"*. If new (or indeed traditional entrants) could all be trusted to adhere to the same high standard, of course this wouldn't be necessary. But they can't, so *"minimal standards for all players"* will be needed...so *[compliance] does not depend on the 'good will' of the individual companies or persons"*, according to Malkhaz Dzadzua, CEO of a NBF in Georgia.

The answer may need to be more ambitious than individual central banks regulating their own markets. *"A demanding normative framework is required, at the international level we have the Basel regulation; which allows, under certain techniques and methodologies, a way of working that contributes to the development of financial institutions"*, argues Julio Albitres Hernández, Deputy General Manager at a Cooperative in Peru.

## 5. Social Performance and/or Impact Measurement



Up from 10<sup>th</sup> in 2018, Social Performance Management continues to be ubiquitous among respondents' thoughts and concerns. Growth in 'impact washing' means 'impact investment' draws attention, exposure and funding away from financial inclusion. But there

is a strong belief too that the gains made over the last decade in the financial inclusion sector – the standardisation of increasingly robust SPM tools, the expectation of evidence-based outcomes, and the refusal of observers to be deceived by flimsy anecdotal pseudo-data – must continue to develop. Really, this is about accountability – to donors and investors at one end, and to clients at the other. But what 'impact' – if any – is even mandated by financial inclusion products and services?

Respondents' comments reflected the continued – and growing – importance of this most difficult area of financial inclusion. It is clearly *"very necessary"* to monitor social performance and measure outcomes, according to Md. Humayun Kabir from a Microfinance Bank in Bangladesh, and at the same time, *"very difficult to administer"*, writes a practitioner from an NBF in Eastern Europe. A researcher from a European infrastructure organisation goes further: *"[It's] still important but impact measurement remains difficult for financial service providers to access"*.

It's also not a job for just a single stakeholder, such as an MFI, or a Fund Manager or local bank. Rather, writes Yasmin Olteanu, a researcher at a think-tank, *"the management and measurement of the impact of the operations will remain a highly important topic [and a] strong group of different like-minded stakeholders will be needed to ensure advancing these aspects"*. It may take the proverbial village to do this well, but the impetus comes more from investors, *"due to accountability towards asset owners in terms of impact measurement"*, says a Market Research Analyst at a Europe-based MIV Manager.

It may be investors with their accountability to asset owners that drive this process forward, but are they all pulling in the same direction? How much data sharing takes place and how much standardisation is there of social performance due diligence? The Executive Director of a global SPM standard-setter in Europe, Jürgen Hammer, argues that there is much left to be done before the outputs are commensurate

with the claims. "At a time of impact and social and environmental performance mainstreaming across the economic sphere, we need to agree on concepts (a taxonomy) and measurements to be transparent on our achievements".

"Yes, but to what end?"

US-based consultant

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## The Best of the Rest: Selected Comments for the Remaining Trends

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This year, the *Compass* survey produced literally thousands of comments, across all the trends, New Areas of Focus, and open questions. The following are some selected comments from respondents regarding the remaining trends.

### New Categories of FSP

*Most important: how do we make/keep them social, transparent and responsive to the Client Protection Principles?*

Policy Adviser at international NGO

*In some countries more than others, but it is a reality - and often distorting the market where FSPs operate.*

Inclusive Finance Director at microfinance rating agency

*These new players will play an increasingly important role and regulation should pay close attention to them*

Head of research and development projects at European donor

### Governance

*A subject that the Tier Ones have done well.*

Director at French Commercial Bank

*Now that we are in FinTech, we must have a very strong governance practices and structure. [The] Governance team must be aware why are we implementing FinTech.*

CEO of MFI in Philippines

### Maintaining/Deepening Outreach to the Very Poor

*Not that it is not important, but the criteria should be on underserved rather than very poor.*

Market Analyst at Funder

*This depends on the vision of the organisation. If inclusion is the vision, how can the ultra poor be forgotten?*

Senior Manager at Indian Bank

## Product Development or Innovative End-user Finance

*Yes, it is important, but Tier 2 and 3 MFIs are very single-product MFIs and sometimes have difficulty in deploying a more diversified offer of financial services. Loan officers are often much more motivated to distribute traditional loans in large numbers to their clients (with which they will more easily achieve their disbursement target) than innovative and complex loans whose objective is to finance, for example, a solar energy furnace or a young entrepreneur without guarantees and experience and who requires more time and financial education.*

**Project Head at INGO**

*Adaptation to client needs – yes. [But] I don't see the need for product development. The products all exist already.*

**Managing Director, Europe-based infrastructure organisation**

## Human Resources and Institutional Capacity Development

*Essential in these rapidly evolving times when traditional skills sets are being displaced or need to be augmented.*

**Managing Director of Global TA Provider**

*[Microfinance] and outreach to marginalised communities (and even from a gender perspective) will continue to require an organic, medium touch model, so HR is a critical piece of the entire delivery methodology, in spite of digitalisation.*

**Managing Director of a Pakistani NBF**

*Talent for digital transformation is in short supply in many areas.*

**Managing Director of supra-national network**

## New Focus Areas (WASH, green, housing, education, etc.)

*Recognition that most products are loans and most loans are variations on a theme, I see a huge need to expand differentiation.*

**Co-Founder of global TA provider**

*These "new" areas are crucial, but what seems most novel is the focus on the end use of financial services: they are supposed to be used for education, housing, hygiene, resilience to climate change... all of these are basic needs, and inclusive finance should have focused on the end use of financial services a long time ago.*

**Head of research at Luxembourg-based NGO**

## Market Information & Infrastructure (credit bureaus, reg. reports, etc.)

*A large part of this now exists in some or other form.*

**Partner at TA Provider working in South Asia**

*A big effort in the past 3 years by regulators means much more sophistication of credit bureaus.*

**Head of Investment at Commercial Bank working in Sub-Sahara Africa**

## Industry Reputation

*It should be much higher but I don't see this being taken seriously - interest rates don't come down despite innovation, little progress on still excluded, many areas of reputational risk at a time of "Impact-mainstreaming" in the financial and industrial world.*

Executive Director of international SPM body

*Important to distinguish committed double bottom line companies from greenwashing. Push back against "no trade off" myth.*

Managing Director of Fund Manager

## Non-Financial Services

*They are always valued by customers, however they are becoming more specific depending on each segment.*

Deputy General Manager  
at Cooperative in Peru

*Still a fascinating area, but that horse seems beyond flogging generally*

Head of US-based TA Provider

*Non-financial services such as financial education are essential, especially if we are moving towards increasingly complex financial products, but this is definitely not the priority of MFIs, at least those in tier 1.*

Head of Projects at INGO working  
in Sub-Sahara Africa

## Use of New Outreach/Marketing Channels (e.g. agents)

*'Improvement' of use  
[is what matters]*

Financial Inclusion Specialist  
at South-African TA Provider

## Institution-Level Information (ratings, audited reports, etc.)

*This is of more interest to funders;  
how important is it to the end  
client?*

Director of inclusive Finance at  
Moroccan ICT support provider

*With the globalisation of the "impact" approach,  
[we] need to (i) define clear concepts and  
evaluation standards and then (ii) audit and/or rate  
[so that] new actors will feel comforted by external  
validations.*

Managing Director of global SPM organisation

*Performance benchmarks need to get a fresh look.  
Many digital apps don't conform.*

Managing Director of global network

## Expanding to New Client Segments

*This is important, and the digital revolution will allow FSPs to extend their services to encompass MSMEs ... but the big risk/concern is whether FSPs will continue to serve rural areas with limited access to 3G, smart phones and affordable data packages.*

Managing Director of Global TA Provider

*There are still huge numbers of unserved and underserved clients and little support for institutions seeking to serve them*

US-Based TA Provider

*Technology should make this a trend and focus area, but [it's] not happening enough*

Executive Director of Infrastructure Organisation

## New Investor or Funding Channels

*[We must] catalyse blended finance.*

Dutch MIV Manager

*More and more private sector actors such as foundations and private investors are financing the sector and this will increase in the coming years. Public funding, in the form of grants (bilateral donors), is also less important. Practitioners in the sector will increasingly have to work with the private sector if they are to survive.*

Project Head at French NGO

## Research

*Research on what works and what doesn't should be supported and widely disseminated, and companies that don't adapt to reflect latest findings should explain why.*

Managing Director of US-Based Fund Manager

*Give opportunities to young researchers to propose new innovations for the sector.*

Inclusive Finance Director at TA Provider in Morocco

*Discourage pointless data mining and statistical 'academic' research; demand that research is useful.*

'Emeritus' Chairman of ratings agency

## Fund Management Practices

*Impact considerations have become mainstream in fund management practices (however more in terms of messaging and marketing than in terms of concrete translation of change).*

Managing Director of Europe-based infrastructure organisation

*Are funds lending in order to be profitable, or are they working to have an added value in building a sector that responds to the need of the poor?*

Policy Adviser at Dutch-based INGO



# Coming Into View: New Areas of Focus in Financial Inclusion

Which of the following areas are likely to see the most significant developments in the financial inclusion sector in the next 5-10 years?

Forecasting is the art of saying what will happen, and then explaining why it didn't.

Anonymous

## Overall Rankings

The next part of the survey moved from looking at the present (the importance of trends currently underway in the sector and how important they are to achieving agreed goals) to the medium-term future: what will be the New Areas of Focus, among those services and initiatives that go beyond 'core' microfinance, that will see the most significant developments in the coming five to ten years?

To this end, respondents were asked to consider a list of 15 New Areas of Focus<sup>5</sup> (up from 14 last year, with just 'Finance for the Urban Poor' added). Respondents had to choose five Areas of Focus and rank them in their significance, 1<sup>st</sup> to 5<sup>th</sup>. Figure 7 shows the 2019 NAF Index scores in rank order, plus their corresponding 2018 rank.

Once more, **Agri-Finance** was the top Area of Focus – by a considerable margin again<sup>6</sup>. **Climate change Adaptation/Mitigation** and **SME Finance** again round out the Top Three – although in reversed order this year. **Finance for Refugees/Displaced Populations** is rated highly in 4<sup>th</sup> place – a growing focus borne out by the comments too. **Energy** and **Housing Microfinance** have both dropped, from 5<sup>th</sup> and 3<sup>rd</sup> to 7<sup>th</sup> and 8<sup>th</sup> respectively. **Education** is up from 12<sup>th</sup> to 9<sup>th</sup>. The new entrant – **Finance for the Urban Poor** – comes in at a middling 12<sup>th</sup>.

At the bottom of the table, there are several familiar themes. **Finance for the Elderly** – despite forthright written support from the occasional respondent – came last for the second year running. **Fair Trade** was again second from bottom.

**Climate Change Adaptation-Mitigation**, while only up one rank from last year, has in fact increased significantly from 2018, when it received only half the votes of Agri-Finance. Considering both the respondent group and that the European Microfinance Award 2019 has been on *Strengthening Resilience*

- 5 The New Areas of Focus (NAF) question has been analysed with greater sophistication this year. Last time, respondents just selected up to five choices. This year, they were asked to rank their choices, and those ranked scores have been converted into what is now called the NAF Index – a 0-100 scale that captures both propensity (how many times the NAF was selected by respondents) and significance (if it was selected, how high respondents ranked it). This scale will be used for subsequent *Compass* editions too and will enable better year-on-year tracking. As before, respondents were invited to add comments on each Area of Focus too.
- 6 A caveat: the methodology this year has changed, and incorporates not just the number of votes given to a particular Area of Focus, but how those votes were ranked. So year-on-year comparison is less valuable than it will be in the future. However, it's clear that the list – with its similarities to last year's rankings, even with a larger and more diverse respondent base – is reflecting well-held beliefs.

**Figure 7**  
The NAF Index

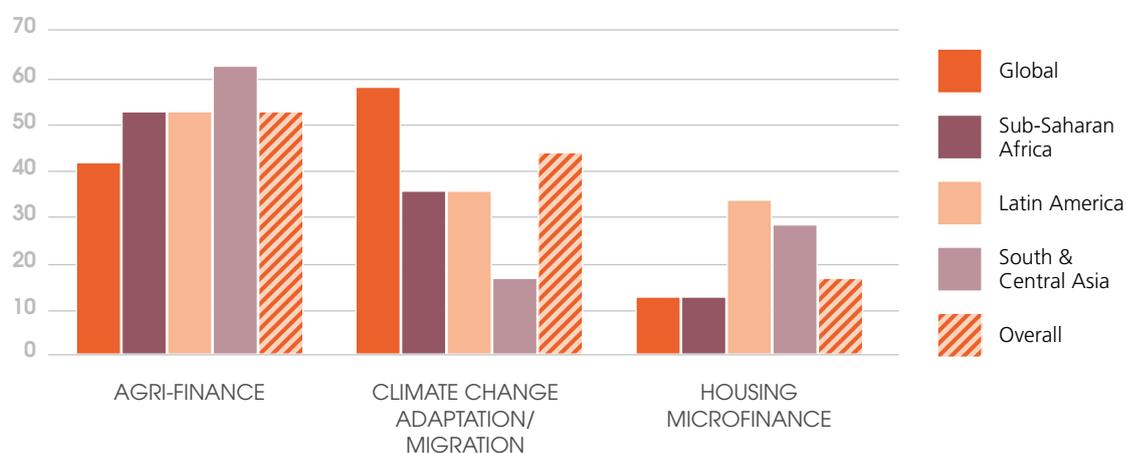
Rank	Area of Focus	NAF Index score	2018 score
1	AGRI-FINANCE	52.0	1
2	CLIMATE CHANGE ADAPTATION/MITIGATION	43.3	3
3	SMALL AND MEDIUM ENTERPRISE (SME) FINANCE	40.0	2
4	FINANCE FOR REFUGEES/DISPLACED POPULATIONS	22.0	7
5	FINANCE FOR YOUTH	20.7	6
6	FINANCE FOR WOMEN	20.5	8
7	ENERGY	17.9	5
8	HOUSING MICROFINANCE	16.2	4
9	EDUCATION	15.2	12
10	ENVIRONMENTAL SUSTAINABILITY/RESOURCE MANAGEMENT	15.0	9
11	DISASTER RESILIENCE	11.5	10
12	FINANCE FOR THE URBAN POOR	11.5	NEW
13	WATER, SANITATION AND HYGIENE (WASH)	8.4	11
14	FAIR TRADE	4.2	13
15	FINANCE FOR THE ELDERLY	1.7	14

to *Climate Change*, it's likely the high profile of the Award has increased awareness and interest on this among survey respondents. Moreover, **Disaster Resilience**, which is clearly related to climate change, was again in the bottom third – although more than one respondent observed that perhaps this should be bundled within climate change. It's an oversimplification to merely aggregate the two scores, but it is also conceivable that Climate Change *including Disaster Resilience* might have usurped Agri-Finance in top spot. Whatever the situation, it's clear that there is high – and growing – attention to this Area of Focus.

## Responses by Geographical Focus of Work and Respondent Organisation

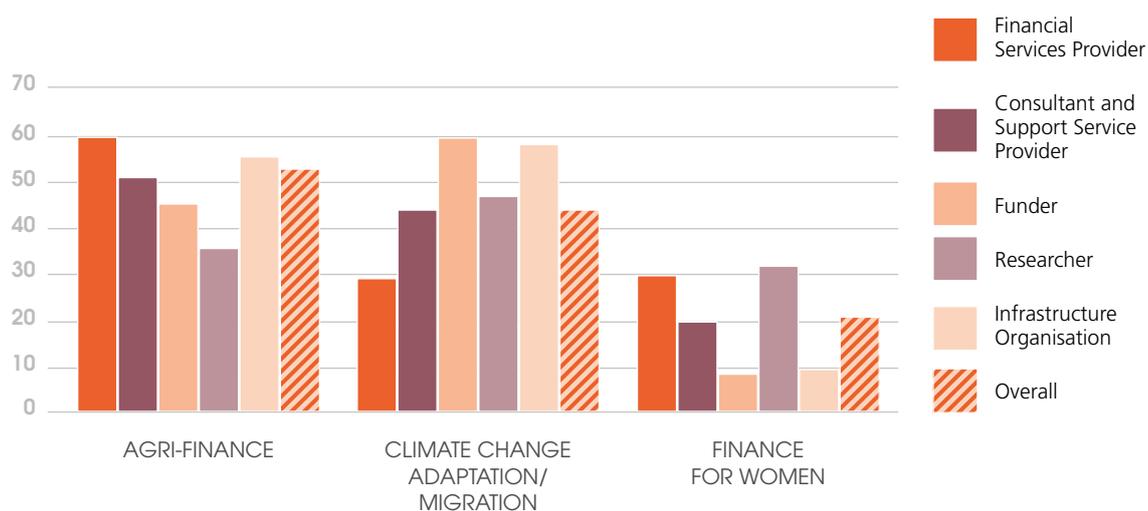
Figures 8 and 9 show NAF Index scores for selected Areas of Focus, by respondents' geographical area of focus and organisation type, respectively. Assessments for the prospects of Agri-Finance are extremely high in South and Central Asia (an Index score of 62.4 being virtually the highest for any group and any subject) – and low among researchers. Asian respondents are strangely bearish about the prospects for Climate Change Adaptation/Mitigation, which by contrast are extremely high for respondents working globally, funders and infrastructure organisations. Housing Microfinance is low, especially among those working globally or in sub-Saharan Africa. A relative paucity of written comments too means that sadly, despite the immense importance of housing and its effects on many other development outcomes, respondents generally foresee limited prospects for development. And Finance for Women, while in 6<sup>th</sup> place, is predominantly inflated in the rankings by researchers, who offset the extremely low interest in this area among funders and infrastructure organisations.

**Figure 8**  
Selected NAF Index Scores by Geographical Area of Focus



**Figure 9**

Selected NAF Index Scores by Respondent Organisation Type



## Top Three Areas of Focus: What Respondents Wrote

### 1. Agri-Finance

For the second consecutive year, Agri-Finance tops the rankings of New Areas of Focus – and by a large margin again (8.7 points ahead of Climate Change Adaptation/Mitigation in second place in the NAF Index). Predictably, respondents consistently commented not only the current but the future importance of Agri-Finance: this area is growing, and will continue to do so.

There are several reasons for this. “70% of the poor in developing countries where microfinance [takes place] are into subsistence farming”, claims a branch manager in West Africa. Agriculture “is the sector of the economy where the [biggest] part of the financially excluded population is living and working for survival in developing countries”, writes Malkhaz Dzadzua, a practitioner in South Eastern Europe. And as “most excluded populations live in rural areas, in order to promote long term sustainability, not just short term interventions, this should be [our] next priority focus”, argues Alba Lorenzo, a support service provider working in Sub-Saharan Africa.

Climate change is making things more urgent too. It means increased frequency and severity of natural disasters and extreme weather, which disproportionately affect the most vulnerable groups, and especially farmers. From a purely financial perspective, “MFIs need to take timely and adequate measures to assess the impact of these events on their portfolio and then restructure, refinance or write down loans affected”, according to a Lina Frank, portfolio analyst at a globally-focused funder.

The consequences flow to institutions and clients alike. World hunger is once again increasing, despite all efforts, meaning “a big crisis”, claims the head of an infrastructure organisation in Europe. This is a consequence, according to Michaël de Groot, Senior Investment Manager at a Dutch bank’s rural fund, of the “need to feed 9 billion people in 2050 in a healthy sustainable manner - including 450 million smallholders”.

This is an immense task. It is complex – “linked to food and water security as well as fair trade”, according to a TA provider based in Sub-Saharan Africa. The world may be able to feed its citizens, but those citizens “are not able to manage and redistribute the resources accordingly... Agri-finance plays a crucial part in this picture and will become increasingly more important over the coming years”, writes a researcher at a think-tank in Western Europe. Productivity of small and medium farmers needs to be improved – but this requires support – and opportunities for the financial sector too. “A better output in production can be achieved through assistance of experts in their respective fields, investments in technology and education. There is a trend for SMEs to avoid intermediaries and have direct access to the producer, which signifies that those companies will be looking for a financial institution to partner up with so they can provide financing”, predicts Ingmar Kluger, Finance Manager at an NGO-MFI in Ecuador. And there remains a considerable funding gap, which mainstream banks have been unable to fill.

“Our farmers are economically included but financially excluded, hence agri-finance is a major focus for us.”

Head of Agent Banking & Retail Distribution at Nigerian bank

## 2. Climate Change Adaptation/Mitigation

A strong second in the NAF Index (up from third in the total scoring last year and with a score of 43.3), Climate Change is arguably *under*-ranked here, because of its overlap with Agri-Finance and Disaster Resilience. Whatever the scoring and taxonomy, respondents were clear that resilience to climate change is of pressing and growing concern. The sector must rise to this challenge.

Several respondents observed that climate change has and will have the greatest impacts on the most vulnerable – the same groups the microfinance/inclusive finance sector has been developed to serve. It is “part of the same issue...as disaster resilience”, writes a sub-Saharan Africa-based TA Provider, and will require “a more structural approach”, because climate change “engenders systemic reactions in the whole social-ecological system”, according to a microfinance officer at a European network. Climate Change is “intrinsicly linked” to agri-finance too, according to a European MIV Fund Manager, as “[it] is rapidly impacting microfinance borrowers in rural areas, e.g. smallholder farmers. Crops such as coffee, plantain, and cocoa are already affected (e.g. diseases, productivity variations, heavy rains during the harvest). Bigger troubles [are] ahead. Financial products should be adapted accordingly.”

“Climate Change is very important, and we see challenges among our agricultural clients. But we don’t know what to do with it, how severe or true it is.”

CEO of NBFi in the MENA region

Despite the ubiquity and visibility of the issue, there are still major barriers. A West African practitioner bemoans that many governments, *“especially in countries where microfinance excels do not view climate change as important enough to influence decision making. They are more concerned about solving poverty problems”*. And this indifference is crucial. It is *“governments (and big donors) who need to provide support”*, writes the Executive Director of an MFI in Bangladesh.

*“One cannot deny it any longer, we are dancing on a volcano.”*

European-based funder

### 3. SME Finance

In 2018, *Compass* respondents mostly discussed SME Finance as too often falling between the gaps – too difficult, too often overlooked, and a topic of *“endless debate within the sector with little – yet – to show for it”*. It was described by one as a *“grey segment – too large for MFIs; too small for banks”*.

This time, respondents were somewhat more bullish on SME Finance. It was variously described as *“very important for job creation and innovation”* (by Alemayehu Hailegiorgis, CEO of a microfinance bank in Ethiopia), and *“of increasing importance to financial inclusion donors as they see sustainability in targeting SMEs”* (from a practitioner in West Africa). It will only increase in importance as *“employment decreases and individual enterprise increases”*, writes the head of a European network.

*“It is (here) that inclusive finance should turn, and it seems that a number of actors are already doing so.”*

Researcher and Project Manager at European donor organisation

Of course, an SME in one market is a microbusiness in another – this is an area of great semantic confusion. Is serving the so-called ‘missing middle’ even core to financial inclusion – especially if it takes resources away from serving more vulnerable segments? And who is pushing for it? Lina Frank, a Belgium-based portfolio analyst at an MIV Fund Manager says that the impetus comes not from social investors, who don’t want it to develop significantly, but *“it is a reality that MFIs tend to approach SMEs along with the growth of their portfolio and their increasing access to funding. Taking bigger, less risky exposures is more cost-efficient than small risky loans and allows diversification of the portfolio”*.

No matter how much some MFIs may be attracted to SME finance as a cost-effective risk mitigation strategy, that doesn’t make it easy. An SME adviser in Albania, Alba Lorenzo, points to *“informality, improper book keeping [and] collateral requirements”* as the *“barriers that keep banks and other financial institutions away from understanding [SME] clients’ needs and designing simple products”*.

*“(SMEs are the) engine of countries’ development (and the) main generation of GDP wealth. Every big company started as an SME.”*

Manager at South American cooperative

## The Best of the Rest: Selected Comments on other New Areas of Focus

### Finance for Refugees/Displaced Populations

*"Refugees/displaced" are a sub-segment of a larger group of 'foreign-born residents' (FBRs) which should all be looked at...[the sub-segment] is not more important than other FBRs; we need to see a development away from 'nationality-focused' finance to truly inclusive finance, and FBRs do not need specialised products."*

Consultant and Support Service Provider focused on Middle East and North Africa

*Be it for political, environmental or other reasons, important population flows are expected in the next decades. These populations settling somewhere else in the medium/long run have financing needs and in some cases, already a borrowing experience. This is another market to be attended.*

MIV Manager working globally

### Finance for Youth

*[They are] today's and tomorrow's entrepreneurs. Today they generate disruptive changes in the way of doing business.*

Manager at Cooperative in South America

*Most of the population in developing countries are young and uptake easily all new technologies. Their growing need for start-up financing, education, and housing is a trend and has to be taken seriously by financial institutions and new FinTechs.*

MSME consultant in South East Europe

*Entrepreneurial minds must be developed among the youth.*

Head of South-East Asian MFI

### Finance for Women

*Though very important, financial inclusion doesn't target women particularly in their decision-making.*

Branch Manager at MFI in Cameroon

*This segment of population is underserved in developing countries due to socio-cultural factors, but has high potential both economically and socially.*

MSME Consultant in Albania

## Energy

*[The sector must be] smarter, cleaner, more recyclable.*

Senior Investment Manager at Dutch Fund

*The rise of electric vehicles in the developed world makes a business case for solar and wind as better long-term energy investments for developing countries.*

Senior Executive at Nigerian NBF

*Micro Grids!*

CEO of Indonesian FinTech Provider

## Housing Microfinance

*I would like to see developments here, but not sure it will happen.*

Financial Inclusion Specialist based in South Africa

*It's a basic need; moreover a decent house increases overall productivity.*

Director of Operations at Microfinance Bank in Bangladesh

## Education

*[We need] long-term student loans.*

CEO of Indonesian FinTech provider

*MFIs can run quality education industries out of their surplus funds.*

Executive Director at Bangladeshi MFI

*Important but hard to make huge progress in areas like tertiary education - savings may work.*

Director Market Insights and Analytics at global microfinance network

## Disaster Resilience

*As climate change is bringing more natural catastrophes, whose intensity and frequency is increasing worldwide, we see and certainly there is a need for more products to help the poor to protect themselves from shocks.*

Microfinance officer at global infrastructure organisation

*Better be prepared, be prepared better.*

Senior Investment Manager at Dutch-based Social Fund

*Humanitarian support [should] be provided by the MFIs with the support from Government and donors.*

Executive Director at Bangladeshi MFI

*[Are we] treating the symptoms and not the cause?*

Managing Director of Europe-based infrastructure organisation

## Finance for the Urban Poor

*The [healthy growth] of cities is achieved by reducing poverty. Therefore, providing access to sources of financing improves their quality of life.*

Microfinance Expert at Cooperative in Latin America

*Poverty is multidimensional; it includes nutrition, health, education, housing, sanitation, etc. Rural and urban areas present different kinds of poverty. For example, in rural areas people living in poverty have less deprivation in the access to food (which is produced there), drinking water (less pollution), or housing (less expensive) than in urban areas. Which means finance is an important poverty alleviation tool in urban areas as well. It is a reality that more and more people are coming to cities in search of economic opportunities. Hence, this is a market to be attended by the sector.*

Portfolio Analyst at MIV Manager

## Water, Sanitation and Hygiene (WASH)

*[This is an] absurd 'humanitarian' category - why are we adopting UN speak/silos? It's linked to agri-, food/water security, inequality and eventual disaster mitigation...*

Financial Inclusion Specialist at South African-based TA Provider

## Fair Trade

*My 'Fair trade' choice is Digital Finance.*

Project Coordinator,  
Belgium-based TA Provider

*[This] is a human right.*

Investment Manager at  
Social Fund based in Europe

## Finance for the Elderly

*Finance for the elderly (which also encompasses pensions) needs MUCH more attention than it gets!*

Managing Director of Us-based research body

*In the 'North', elderly generally represent "bankable" clients with assets.*

Managing Director of global SPM body



# The Challenges and Opportunities Ahead

Prediction is very difficult, especially if it's about the future.

Nils Bohr

## Challenges

What is the single biggest challenge/threat to reaching the goal of universal access to quality financial services, and why?

In 2018, we wrote that “overall, respondents saw a range of challenges ahead, but which were linked by themes of financial education and capability, outreach at sufficiently low cost, and keeping service quality high in the face of an erosion of social focus and a relentless ‘race to the bottom’ that the financial technology revolution threatens.”

This time around, respondents went further – with palpable concern evident about the sector’s ability to square the proverbial circle of client protection and maintenance of a social mission on the one hand, and the relentless encroachment of technology on the other. Broadly speaking, respondents’ perceived challenges fell into two broad (and clearly overlapping) categories: 1) External challenges (politics, financing, climate change and regulation); and 2) Institutional challenges (product development, mission drift, client education, overindebtedness, digital transformation and sustainability of business models).

Respondents cited several **political or macro-economic challenges**. They include “populist anti-integration policies by contractionary policy makers and the restrictions of the ‘nation state’ concepts of citizen superiority and related regulations”, according to Lene Hansen, a support service provider based in South Africa; and the “changing geo-political environment in the West and diminished focus on development aid from governments”, according to a European funder.

**Climate change** (and its inevitable consequence – increased migration) was also mentioned much more frequently than last year. It will have a dual effect, both “jeopardising the development efforts of the past...if not tackled strategically ...[including] dedicated climate finance products and non-financial services to strengthening resilience of clients”, according to a consultant at a German-based TA provider, while also causing dire consequences for already-vulnerable populations. As a US-based crowdfunder observes, “access to financial services is often tied to identity, assets, and stability. Forced migration can deprive populations of all of these”.



**Financing** was cited by many – and has many components. One is fund flow to small and medium institutions – the Tier 2 and 3s – that cannot access finance from larger donor agencies, DFIs and multilaterals. Beggars can't be choosers, and, being in a weak negotiating position, these providers are still "bound to credit from the local banks at high interest rates, according to BM Kamroul Hassan, Director at an MFI in Bangladesh. This is compounded by the "big limitation", the absence of a central, supra-national "UN-like organisation in the financial services [sector]," and "country-to-country differences in regulations which restrict accessing of funds from agencies with a sector focus", writes Christudas KV, Lead Adviser on sustainable banking at an Indian Small Finance Bank.

"Conventional investors don't care about universal access, and development finance providers often lose their nerve when it comes to pushing beyond what conventional investors can stomach. What patient capital and subsidy is available will probably be directed to other challenges facing the most stressed populations, and probably should be."

Managing Director of US-based MIV Fund Manager

Some of the problem is (lack of) alignment and communication between investors, providers and clients. As an analyst at a European funder writes, "[we must] mainstream these impact products, in order for the investor appetite (the supply side) to better align with the demand side of the financial inclusion market."

At the institutional level, **products** must continue to develop in quality and alignment or responsiveness to clients' needs. Brand loyalty alone "cannot guarantee that the provision of quality services will be appreciated by clients...client retention is dynamic". Clients "desire more personalisation, transparency, easier (and affordable) access to services supported by secure platforms. FSPs that provide these services, and evolve, will retain clients", writes Onuoha Chijioke, a Senior Executive at a Nigerian NBF. Delivering stock products to clients, the old-style, one-size-fits-all microenterprise loan has had its day. But the sector "is still relying too much on limited financial products...more variety...is required in order to serve the poor better. However – how do we control costs?" asks an adviser at an INGO, rhetorically.

**Education** includes a range of things, from basic schooling to vocational training to financial education and digital literacy. The importance of increasing access to education (and education finance) and improving quality and efficiency of what is provided was clear in last year's question on challenges. It is "the key to allowing people to access transparent, responsible and adapted financing opportunities, and it is at the same time the biggest development problem globally. Poverty, and lack of access to finance, is linked to education", writes a portfolio analyst at a funder in Belgium. Education – and financial education – faces a first-order hurdle sometimes. It often takes education to understand its transformational value, so it can be a hard sell, especially if there is a cost involved to clients. As a US-based journalist puts it, "the barriers of low financial education and education in general...keep people [not only] from being able to use financial services but also from seeing their value in the first place". On financial education, several respondents this year expanded on the point, specifically as it relates to DFS. "Financial services will require some significant trainings on financial literacy [especially] digital literacy to ensure that its potential enables universal access", writes a TA provider in Myanmar.

“Microfinance is too expensive for the financially excluded. They pay more for what they can barely understand. The MIVs and DFIs haven’t figured out the real needs of the poor and how to help them.”

Senior Analyst at South Africa-based investment bank

There have been concerns about **mission drift** for years now – during overindebtedness crises; IPOs; NGOs becoming NBFIs that become banks...the issue has never gone away. Respondents continue to bemoan providers shifting focus to the ‘low hanging fruit’ of *“the emerging middle class instead of the lower-income, more rural and more excluded customers who are less profitable and more challenging to reach”* (writes a US-based editor), a consequence of aggressive targets from financial-first investors driving overheated competition, all part of a *“pure market focus which leads to all players maximising profits and limiting expansion of lower margin services...in other words, a ‘race to the top”*, according to the co-founder of a US-based TA provider.

“A focus on growth and access from new aggressive fintech entrants at the expense of usage and client-centric services. This can threaten the entire access to financial services sector.”

ESG and Impact Manager at a Dutch funder

Part of the concern about mission drift is the lack of **client-centricity** in product design and delivery (although there are plenty of respondents who believe this continues to improve. A lot is spoken, writes a risk management consultant in Costa Rica, *“but little is put in practice based on knowledge and research on what target segments need”*. And the inexorable shift to digital finance is not helping. As a UK-based academic says, we risk *“repeating the errors of the past by focusing only on the expansion of digital, trying to find ‘best practices’ which neglect the effects of heterogeneity among institutions and clients”*.

“Poor customer centricity, which results in poor uptake of new accounts and account inactivity or dormancy, which then undermines sustainable business cases.”

Director of international banking association

Related to client-centricity in products is of course **client protection** – yet again right near the top of the trends rankings in this survey. Despite the work of the various sector initiatives to set standards in this area, much remains to be done – again, especially concerning **FinTech**. A group head at a European funder bemoans a *“lack of consumer protection in all its forms, whether data protection or appropriate products. If technology is the biggest opportunity, its downfall will be the reputational damage caused by either breaches in data protection or irresponsible products that would result in regulatory backlash”*.

And even without malfeasance or breach, the digital divide grows to a gulf. With everyone focused on technology, *"concentrating on digitisation of their offerings to serve digital-equipped clients more efficiently, the very poor are still not served with infrastructure or education...to benefit..."*, writes a new distribution channels expert at a global group of FSPs.

**"Combining DFS delivery with Client Protection Principles. Making sure DFS Providers are not harming the customers particularly in terms of aggressive selling techniques, contribution to overindebtedness, transparency and fairness of the price."**

Inclusive Finance Director at a ratings agency

The answer is *"more work on the supply side to build the right use cases and develop the value proposition around convenience, security and affordability - incentivising and catalysing the adoption rate"*, writes the CEO of a microfinance bank in Pakistan, adding *"it's imperative for the players to re-think their strategic objectives - whether they want to target the mainstream banked population with a better or 'me-too' offering; or do they intend to target the under-served, un-banked population and deepen financial inclusion?"*

**"(We risk) losing a main objective of Microfinance (poverty alleviation) (in favour of) profitability."**

TA Provider in Europe

But this is fantastically difficult, and overall respondents took the opportunity in this question to warn that technology risks exacerbating exclusion, rather than reducing it. Or as an investor in Europe focused on sub-Saharan Africa, Asia and Latin America puts it, *"the development of digital...has not yet fully met the expectations and hopes for responsible inclusion, with many consumer loans at high interest, for small amounts that ultimately finance little in the real economy, but ultimately blacklisting customers for paltry sums, and threatening the existence of small institutions that do in-depth work in particularly rural, remote areas"*. Strong words.

Much of this comes down to business models – **profitability and sustainability**. Is serving excluded groups, at scale, protecting them from harm or malfeasance, offering them useful and client-centric products (with education where necessary), all the way adapting to new digital challenges – and doing so in a financial sustainable way - is this even possible? Or do we instead accept that for all the talk of financial inclusion or inclusive finance, what is really being pursued is not usage or capability or utility, but really just financial access – financialising new segments, mainly by opening new accounts? The problem, as ever, is that access is easier to do. As a TA provider in South Asia writes, *"the biggest challenge comes from the fact that everyone is just trying to open an account and that's all. This is something many countries would be able to achieve but this won't take them too far. So the focus should be on activity or usage and that requires a lot of thinking in terms of right products and delivery mechanisms."*

“Some client groups, e.g. the very poor, will never be attractive to FSPs. This is regardless of technological innovation or fintech, simply because the returns that can be earned cannot cover the risk and cost.”

Partner relations consultant at Europe-based network of MFIs

It's unusual to reproduce a very long respondent comment verbatim, but an exception is made here, in conclusion, for a contribution from Philippe Guichandut, Director of Inclusive Finance Development at a French-based investor, and which captures well the full panoply of complex challenges that face the sector.

*“[The challenge is] certainly the ability of actors to maintain a focus on populations excluded from financial services (especially the most excluded) in a responsible manner, by strengthening the protection of their clients. The trend to move away from vulnerable populations, to serve an easier clientele, considered less risky, remains strong. Institutions need to be more efficient, which implies that they must be able to adapt to new digital challenges, in particular to face increased competition and the emergence of new players, while adapting to the new challenges of financial inclusion and the diversified needs of their clients (access to housing improvement, green energy, savings, etc.). These challenges require new investments - often significant - sometimes the need for institutional transformation, innovation and high adaptability. This must necessarily involve more professional and informed governance and more responsible investors. The latter must be attentive to the needs of MFIs, offer more diversified products and be able to support these institutions in their evolution, in particular through technical assistance”.*

## Opportunities

What is the single biggest opportunity available to reaching the goal of universal access to quality financial services, and why?

I may not have gone where I intended to go, but I think I have ended up where I needed to be.

Douglas Adams



The dozens of respondents' fears and concerns for the future in the previous section could easily leave a reader despondent. But for all the challenges, there are myriad opportunities. Improvements in understanding clients' needs, product innovations, client protection standards, efficiency gains making outreach to new excluded segments more sustainable – there is much to be excited about.

Despite some contradictory responses in section 1, respondents here overall described real progress being made in **product diversification**, which benefits providers and clients alike. As a US-based journalist and editor puts it, *"diversifying product types [makes] it easier for the hardest-to-serve to see the value in financial services [when] they are tied to their immediate needs, such as energy or agriculture"*. Or as a Funder working in Central America puts it: *"Create more products, go beyond credit, and better serve your customers with the right tools."*

This has effects on client financial behaviour and **mindset** too, a shift in which *"can create the opportunity... wherein 80% of the country is actively using accounts to save, make payments, buy insurance and [borrow]... this will financialise the entire market and can be a win-win situation for all the stakeholders"*, according to Anil Kumar Gupta, a TA provider in South Asia and Africa. An empowered population that is financially active and educated can also *"contribute to the economic and social growth of the country with the ability to challenge the status quo and demand [better] services"*, writes Sylver Kyeyune, Head of Risk Management at an East African bank.

Respondents are also positive about the strides being made in **performance measurement** – both social and financial. Growing rigor in how this is collected, assessed and reported means that *"institutions that have demonstrated performance continue to get the capital they need to push into the more challenging segments, rather than being considered all 'grown up' and passed to conventional funders"*, writes the Managing Director of a US-based MIV Fund Manager. This increased rigor can also be seen in the *"increasing importance of measuring impact and contribution to the SDGs"*, which might help *"develop standard measurement tools [to] allow the sector to better understand how it is performing"*, says a Microfinance Officer at a European network.

All of this requires affordable **funding** – whether from local banks or international DFIs, MIVs or the like. Only when institutions have access to cheaper funding, writes Ingmar Kluger, Finance Manager at an NGO-MFI in Ecuador, can there be *"improved access to financial services including traditionally excluded groups (e.g. people in remote and isolated region)". "Funding should be channelled into concrete projects that guarantee an important impact on what is the ultimate goal: universal access to financial services"*, he argues.

There's a virtuous circle at play here – improved outcomes means more access to cheaper funding, which means better outcomes. Improved efficiency and better performance measurement means the right funders can be matched with the right providers, leading to *“improved **outreach to the poor and excluded**, via the high competition that will force the market to go to vulnerable populations”*, writes Carlos Márquez Moscoso, manager at a South American cooperative.

Like last year, however, the majority of respondents' perceived opportunities concerned **technology**. This has many aspects. It includes blockchain technology and cryptocurrencies, *“[which] represent the biggest opportunity...to financially include the global population in a decentralised and fairer financial system”*, according to Andrea Vinelli, a Digital Finance Project Manager working in East Timor. It includes *“branch-less banking and social payments delivered via technology-enabled distribution networks”*, according to an Investment Officer at a global funder. And it includes *“digital identities and credit scoring systems that work across borders”*, according to a Senior Investment Manager at a global crowdfunding platform.

*“(We need) Expansion of digital finance in its diverse forms, both at the clients and institutional level, despite accompanied with great challenges. This expansion must consider the sector's heterogeneity - providing solutions which can be adapted to different contexts and, above all, are inclusive of the segments of the population who can easily become digitally excluded.”*

Researcher at European University

But there are always perils in these sunlit uplands – especially around keeping sight of the needs and **protection of the client**. It requires, according to a French-based funder, a process of *“digitalisation [that] makes it possible to refine analytical methods (scoring), reduce costs, increase outreach, but also paying attention to the risks of exclusion and disappearance of traditional actors with a strong social mission [in place of] actors with a more commercial profile”*. This paying of attention is an ongoing process. Put another way, we need to keep *“[the] human touch and direct contact [between clients and] FSPs, [with] digital solutions constantly tested with end users”*, says Mirjana Panin, Head of Social Impact at a Micro-finance Bank in Serbia.

And, like the measures needed to ensure that, as the sector speeds down a road of innovation it doesn't miss the harm taking place in its 'blind spot', likewise the innovations themselves need not always to be revolutionary in nature and disruptive in their effects. *“While the impact of technological change in the sector is often much slower than advertised or predicted; steady, incremental change is important”*, writes a MIV Fund Manager based in South East Asia.

*“More people are treated for depression-like state following the increasing awareness about the urgency of our planet's situation. Depression can lead to paralysis but also to action and dramatic change. It's the second that we will need.”*

Head of a global infrastructure organisation

# Financial Inclusion Providers



We know what we are,  
but not what we may be.

William Shakespeare

Which category of financial service provider/channel offers the greatest opportunity to offer large scale, quality financial services to low-income clients in the short-to-medium term – and why? (e.g. local commercial banks, international banks, MNOs, MTOs, NBFIs, cooperatives, NGOs, etc.)

## Which Providers Offer the Best Opportunities for Financial Inclusion?



In 2018, *Compass* respondents argued that no single provider category should or will dominate, and that there is room for a mixture – especially downscaling banks, cooperatives and NGOs – each bringing their respective strengths. Once more there was virtual unanimity in the need for a variety of providers in the future, but with much more details on why that is, and who they will be.

Several respondents made the case for **banks** – local, traditional, fintech-based and otherwise. A CEO in Georgia sees the opportunities for “local commercial banks targeting low-income segment. They can offer a wide range of financial services, are more cost-effective and highly regulated (so clients have enough level of protection) and can support further growth stages of the client’s business”. The CEO of a global network argues for “regulated MNO-based banks in environments with mature credit bureaus where all financial service providers are required to submit data”.

A Market Research Analyst at an MIV Fund Manager sees room for both NBFIs and downscaling commercial banks, “the first because they can be regulated in their respective markets and usually target the underserved, low-income category of clients; [the second because] their large size helps in terms of scale and volumes. Their focus on the micro and household segments is a plus”. But banks must evolve. They are still the biggest providers, writes Elisabeth Rhyne, then-Managing Director of a global infrastructure organisation, “[but] the issue with banks is improving their services. MFIs – especially those that have become microfinance banks and NBFIs – continue to be highly important...they have the mission, the competence and the client base...[but] they need assistance to catch up in tech”.

“In the longer term my guess is that we see more mergers or structured cooperations between MFIs and MNO. Commercial banks will only focus on the “graduated” low-income clients, meaning (those clients) having graduated out of low income.”

Managing Director of SPM organisation

**Technology** is the elephant in the room for many respondents. The Managing Director of a research body thinks that the 'Big Techs', if they "decide to jump in with both feet, they could quickly capture a large share of the market", but the role of FinTechs is less certain, with most likely to be absorbed by bigger players. Thierry Sanders, CEO of a technology-focused FSP in Indonesia sees partnership growing, including "FinTechs and P2P lenders working with village level credit cooperatives". A Cambodia-based Investment Manager at a global funder sees natural synergies between MNOs and NBFIs: "MNOs because the possibility to scale services is interesting and the potential returns are leading to important investments. NBFIs because their flexibility in different regulatory environments is leading to innovation (as well as challenging risk management)". Onuoha Chijioko, a Senior Executive at an FSP in Nigeria, argues for NBFIs and NGOs, which are "focused in semi-urban to rural areas with greater access and understanding of the financial needs and preferences of [these] people".

But as last year – and elsewhere in this survey – technology is seen as much as a threat as an opportunity, not just to institutions that fail to adapt and lose clients, but to clients themselves. They're not going anywhere anytime soon. "Digital financial products offered by MNOs are now the main drivers of nominal financial inclusion (number of persons using formal financial services) but are questionable as to their social utility", writes a consultant at a French TA provider. Perhaps there will emerge a new category that can square this circle – the "socially-oriented fintech providers that can leapfrog existing, outdated financial systems and implement the latest technology to better serve clients", described by a Senior Investment Manager at a global crowdfunding platform.

There is room for others too. **Cooperatives** remain popular among respondents – because they can do what others cannot. A support provider working in Latin America says that "in terms of extending outreach to remote rural areas, member-based models (cooperatives, mutuals, etc.) should be favoured to ensure greater ownership, dissemination and adequacy of the products offered". A practitioner from a Small Finance Bank in India makes the case for that model, as they can mobilise retail liability products with low cost of funds such as savings, deposits and current account, they can serve non-microfinance customers as a normal commercial bank, and can continue to serve low-income customers who graduate out of microfinance credit limits, helping them to retain a loyal client base.

**"No single category can provide these (services). There has to be a synergy between local level small organisations (MFIs, Cooperatives and NGOs) and mainstream commercial banks as well as international banks."**

Executive Director at South Asian microfinance association

It's clear that respondents foresee a landscape with a **mix of traditional and emerging entrants**, socially and more commercially focused providers – ideally working in partnership. But respondents list several preconditions for this to be successful. First, funding should ideally come from local parties, according to a Dutch Fund Manager. Second, there needs to be "better and more streamlined systems and platforms for all providers to collaborate, including FinTechs - and a stronger impact and good practice-based code of conduct for such collaboration", writes Lene Hansen, a consultant working in sub-Saharan Africa and the MENA region. Third, according to a US-based TA provider, most important is "regulation that enables scale (for example, cooperative regulations can limit the ability to access finance and/or offer certain services and are frequently regulated outside the formal sector financial regulation)." Finally, there needs to be coordination of policies and practices of actors in both the private and public sectors. The public sector can and must play a big role in identity verification, the lack of which especially affects women, according to a support provider in the Balkans. It is only once this "basic social infrastructure" is in place "that the

*private actors will [be able] to reach all segments of the population, by offering not just 'outreach' [but] quality products with a customer-centric approach".*

**"It will take synergies between fin-techs and formal financial institutions to build partnerships and bring to the table their respective strengths and achieve large-scale, quality financial services to low-income clients."**

CEO of microfinance bank in Pakistan

*What are new entrants (such as FinTechs, MNOs, consumer lenders, etc.) doing to transform the financial inclusion sector, and/or what are incumbents/traditional providers doing to adapt to the influx of new categories of provider?*

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## **What are New Entrants Doing - and How are Incumbents Responding?**

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In the second part of this section on the providers of the future, respondents generally see new entrants as doing certain specific things well, but as yet unable to take the place of traditional FSPs. So what's typically left is traditional institutions *"assessing how to leverage new technological developments, usually in the form of building partnerships with FinTech players"*, according to a portfolio analyst at a European funder.

**New entrants have particular advantages.** FinTechs, MNOs and consumer lenders, according to Kimanathi Mutua, Founder of a Kenyan microfinance bank, *"have access to capital, are innovative and do not have the baggage that comes with focus on poverty eradication mission"*, which allow them to grow faster, reaching more people and *"edging out the MFIs"*. By contrast, he says, traditional providers are constrained by *"limited access to capital and funding"*, with regulated MFIs not very successful in attracting deposits, restricted by their *"legacy approaches and focus on mission...[which] limits their ability to compete effectively with the new entrants, thus losing market share fast"*.

**"Fintechs can scale-up quickly due to fewer physical barriers, so they can reach more potential clients. Traditional institutions (both on the MFI and MIV side) are either incorporating these new technologies, or in the upcoming years they risk losing business to these new entrants."**

Investment manager at Europe-based funder

New entrants' offering for clients includes apparent simplification and expediting of the loan process, playing, as Samuel Chabi, a practitioner in Benin describes it, "on the weaknesses of the system to offer a higher quality service", [meaning] "traditional suppliers are trying to [adapt via] partnerships or proposing new but mostly similar solutions to counter the breakthrough of new entrants and master the effects of competition". A TA provider in the Balkans makes a similar point. What new entrants offer is simple and cost effective, he writes, (at least from a business perspective; not necessarily for the client), so incumbents are forced to try to adapt. Therefore, while "[new entrants] do charge much more than usual service providers, traditional providers are trying to make sure that they can provide a similar service - at least to the existing clients".

"New entrants are testing lots of new business models, and many of these models will become mainstays in the market -- through copycat applications, not just growth of the new entrants. MNOs will see their role reduced over time to providing the rails, just as they have with VOIP."

Managing Director of US-based infrastructure organisation

Respondents recognise the threat new entrants represent to incumbents who don't change – but there are strong voices making the case for the **continued relevance of traditional providers**. "FinTechs are trying to expand their reach, but technology [alone] will not take them anywhere", writes the Director of an Indian Association of MFIs, adding however that "traditional providers will [nevertheless] have to imbibe the elements of FinTechs to continue to provide services to their clients". A Nigerian practitioner observes that new entrants "leverage on technology, data and AI to reach more people efficiently, and save costs", however, many "lack touch with the average microfinance customer". To address this, their aim is to better understand the "unique qualities of the low-income client by partnering with traditional microfinance institutions", he writes.

"I am not convinced that (new entrants) are replacing the traditional MFI; in most markets the target clientele of traditional MFIs and these entrants remains somewhat distinct."

Senior Investment Manager at a Funder in Asia

A practitioner from an Indian Small Finance Bank says that new entrants "mainly service the non- (or ex-) microfinance customer, [so] traditional microfinance lending is not under threat at present". But complacency would be disastrous, and he argues that as a step to "future proofing", MFIs "must be allowed to lend higher amounts to their credit worthy customers...the traditional MFIs can become channel partners to the grassroots-level business of the new entrants – the key strength of the MFIs".

“New entrants’ business models are so different that today they are still not disruptive enough, which is a positive thing. It pushes traditional FSPs to also increase their investments in technology in order to better serve their client segments.”

Analyst at MIV Fund Manager

While there is strong feeling that new entrants are, for the time being, operating in a parallel sector and not yet an **existential threat to traditional providers** despite their advantages, there is an equal consensus that this threat is coming. At the moment, the new entrants are creating “*channels of distribution*”, argues Lina Frank, Portfolio Analyst at a Europe-based MIV Fund Manager, but may soon “*cannibalise clients from traditional...providers, [which] are not yet well prepared to react to such situations and currently [instead] try use the technologies for their own purposes*”.

“The social and economic utility of the microloans (that MNOs) offer remains questionable. When MNOs and FinTech cooperate with microfinance institutions to develop solutions matching the needs of specific client segments (e.g. small farmers), truly useful financial services can be developed.”

France-based consultant working in sub-Saharan Africa

So what breaks the logjam here? Will new entrants overreach before they realise how little they understand what servicing excluded clients actually entails? New entrants are clearly both complementing and replacing existing providers. There’s a whole category of entrants focused on developing technologies for existing providers to improve their operations. Meanwhile, as an Investment Manager at a global funding platform points out, there’s another category “*looking to compete with or replace the existing providers*”. The former is transforming the sector through automation, and providers are increasingly pressured to adopt new technologies in order to stay competitive. But for all new entrants’ “*potential to revolutionise the operating environment, notably around data collection and analysis of credit worthiness and around repayments*”, as Apricot Wilson, Head of Impact at a European Funder notes, this technology is still not being adequately adopted by traditional providers. How the market develops between ‘enhanced’ MFIs – those that have undergone some form of digital transformation to stay relevant – and more traditional players is yet to be fully clear.

“New entrants offer innovative services through new technologies and traditional suppliers try to resist by offering the same services or developing partnerships with these new entrants.”

Funder working in Asia, Africa and Europe



# Financial Inclusion in the Future

What are some of your forecasts for trends in the financial inclusion sector in the short to medium term (3-5 years)?

Your assumptions are your windows on the world. Scrub them off every once in a while, or the light won't come in.

Isaac Asimov



In this final question, respondents were given a blank page to give their forecasts for what will happen in the near(ish) future. The responses were predictably diverse and don't lend themselves to easy categorisation by theme. So, a selected sample of the most interesting ones is reproduced here untouched.

*"The financial inclusion sector will be driven by the actors who have the most money to invest. There are: In all countries: (a) MNOs, who will continue to broaden their range of services with highly standardised financial products so as to marginally offset their operating costs (agent networks) and retain clients in competitive environments; and (b) banks, who will continue to digitalise their financial services to increase value for customers and cut operational costs. In developing countries, development agencies will [also] contribute to promote the financial sector in areas that correspond to their politically-driven mandates."*

French TA Provider working in Sub-Saharan Africa

*"Greater partnerships between FinTech, MNOs etc. and microfinance institutions to drive financial inclusion and serve the unbanked populations of the world... issues and innovations on data security, transparency and privacy [to] take front and centre stage as the digital transformation in the financial sector propagates."*

Practitioner in West Africa

*"1. A large crisis for DFS on data security and/or overindebtedness with reputational damages. 2. Increased efficiencies for well-applied technology by a part of the market. 3. Increasing number of new actors providing financial services. 4. Increasingly restrictive regulation and regulatory coordination or re-positioning (considering financial services supervision by product rather than by provider type). 5. Hopefully pressure on pricing - reflecting efficiency gains in interest rates (by competition and by regulation)."*

Managing Director of Europe-based infrastructure organisation

*"Cloud based CBS, accounting systems and field officer apps = data for improving credit scoring."*

CEO of MFI in South East Asia

*"An increase blurring of the boundaries between larger MFIs and conventional banks. More realisation of the potential of technology to assist with operations and outreach. More efforts being made to determine impact rather than outreach. SDGs being better integrated as a tool to determine impact. More efforts being made in terms of climate change resilience."*

**Head of Impact at European Funder**

*"The focus of financial inclusion will be increasingly on its catalysing role for the achievement of the SDGs (including investments in renewable energy finance, housing finance, education finance and other basic needs)."*

**Europe-based funder**

*"Many more new actors, a lot of disasters (i.e., client overindebtedness, etc.) until commercial banks have finally understood that financial inclusion is their role to play."*

**Investment Manager at Europe-based Multilateral agency**

*"Urban areas will be served mostly by MNOs, rural by a mix of MNOs and MFIs, and deep rural by mostly MFIs."*

**Chief Development & Impact Investment Officer at Network of FSPs**

*"1. In the long run the main goal of access to all will be accomplished. 2. Short to medium term - challenges emanating from limited consumer education and protection will increase and impact negatively on many of the poor and low income people that gain access. 3. In the long run traditional providers will be edged out of the microfinance market segment, unless access to funding and capital from the local financial market is effectively addressed."*

**Founder at East African commercial bank**

*"Regulatory reactions to digitalisation: some will implement policies that are supportive of DFS and new technologies, and others will over-regulate. Alternative hedging options as the demand for local currency investment increases amongst FSPs globally. Traditional providers will no longer be able to compete on price, as their OpEx remains relatively high compared to new entrants."*

**Investment Manager at global crowdfunder**



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# Where To From Here?

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I found myself within a forest dark,  
for the straightforward pathway  
had been lost.

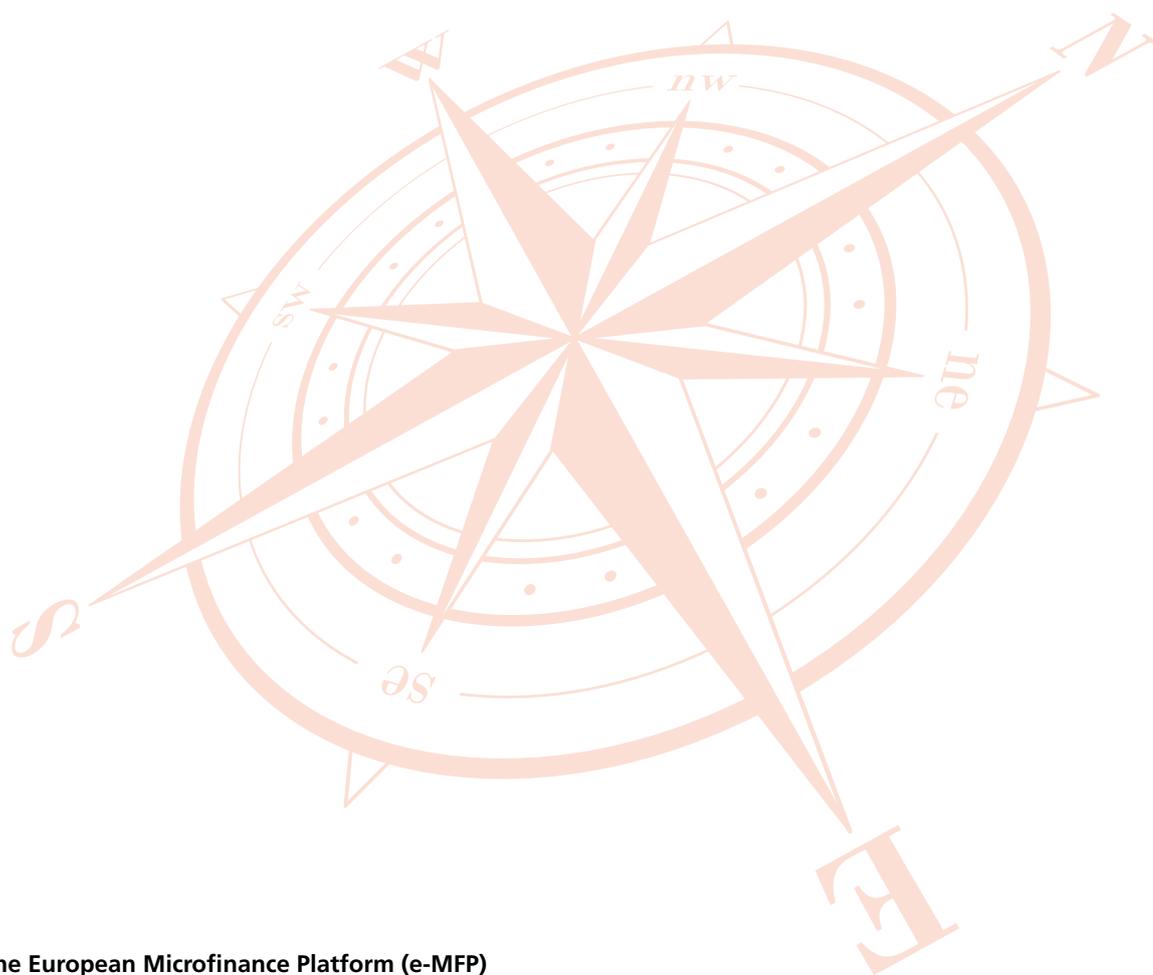
Dante Alighieri

e-MFP had the idea in 2018 to use its unique position as a network of members, a knowledge platform, and as an 'honest broker' for debate and discussion, to run and publish a survey that asked questions about the short, medium and longer-term trends in a sector that is clearly in dynamic flux. It was a success; the first *Compass* was able to present a range of opinions and ideas, prognostications and warnings from a diverse array of stakeholders. 2018 was, in effect, a proof of concept.

This has allowed the *Compass* to go further in 2019, with new questions, new qualitative methodologies, and a considerably larger (while even more diverse) group of respondent stakeholders. What they see coming down the pipeline – what concerns them, what excites them, what their own focus is and where they think the sector should be putting its resources – doesn't allow for concise summary here. The heterogeneity of opinions in the sector is in fact what gives an initiative like this its value.

Nevertheless, it's clear that if there is a single dominant theme of this era of financial inclusion, it goes beyond technocratic tinkering on product design. In one sense, it's almost *existential* in nature. Why are we doing all this – to access new markets? Open more accounts? Meet SDGs targets? Protect the vulnerable? Field-test new technologies? Is the influx of new entrants anathema to some or all of these objectives because it risks degrading financial inclusion into consumer finance? Or are fears about threats to clients and incumbent providers coming from the same place as the horse owners who tried desperately to keep the automobile off the roads? But in a second sense, these questions are *navigational* – a sector (still) at a crossroads, struggling to work out where to go – and how.

Answering these questions will not be the work of a moment. It will evolve over time, and at the risk of torturing the metaphor, the direction of the roads available ahead will become gradually clear. But for now, the outstanding contribution of the sector to this new project – this 'time capsule' of ideas – bodes well for developing those answers in the years to come.



### **About the European Microfinance Platform (e-MFP)**

The European Microfinance Platform (e-MFP) is the leading network of organisations and individuals active in the financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers.

Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation. The Platform achieves this through its numerous year-round expert Action Groups, the annual European Microfinance Week which attracts over 400 top stakeholders representing dozens of countries from the sector, the prestigious annual European Microfinance Award and its many and regular publications.

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