The *Financial Inclusion Compass* 2018

The inaugural e-MFP Survey of Financial Inclusion Trends

EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

By Sam Mendelson

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Foreword

I am delighted to present this inaugural e-MFP Survey of Financial Inclusion Trends: *The Financial Inclusion Compass 2018*.

The European Microfinance Platform is the largest multi-stakeholder platform in the inclusive finance sector. For some time now, we have been thinking about the different ways we could leverage our broad and unique multi-stakeholder membership, plus our key position within the sector, to help drive financial inclusion forward.

Helping members to stay informed about the global challenges of financial inclusion and fostering exchanges between members and other important sector stakeholders are core parts of e-MFP's offering, and the *Compass* survey, the primary purpose of which is to 'take the pulse' of the sector and to paint a picture of the its collective strategic vision, is an opportunity to expand this offering in a new and exciting way.

e-MFP is ideally placed to do this, sitting as it does both within and above the sector, promoting knowledge generation, providing a platform for debate, and influencing the future direction of financial inclusion. And so it is appropriate that e-MFP should embark on this new project - the *Compass* is intended to pull into a single place the breadth of knowledge and ideas among our members and friends, and provoke reflection and construction discussion. The intention is for this to be an annual paper, and will iteratively change over the years, so we welcome any and all feedback or suggestions for improvement.

On behalf of everyone involved in this project, I'd like to thank all respondents who took part – without you and your invaluable input it would have simply not been possible to do this work. We count on you, and others, to take part next year and after that, so that the *Compass* can provide a longitudinal snapshot of industry attitudes, ideas, fears and aspirations from year to year.

Thanks must also go to the e-MFP Board, who actively supported the idea of this survey from the very beginning, and to the lead author Sam Mendelson, as well as the other staff members – Daniel Rozas, Gabriela Erice, Niamh Watters, Gemma Cavaliere and Camille Dassy – who all helped along the way.

Christoph Pausch
Executive Secretary
European Microfinance Platform

Introduction

"If you do not know where you come from, then you don't know where you are, and if you don't know where you are, then you don't know where you're going. And if you don't know where you're going, you're probably going wrong."

- Terry Pratchett

Wise words. Like any large human endeavour, the financial inclusion (or what we used to more commonly call 'microfinance') sector has 'gone wrong' at various times in its short modern history. The reasons run the gamut from hubris to myopia; from selection bias to bad luck; from greed to risk aversion. But whatever the reasons are for each misstep, they probably have one thing in common: they could have been avoided (or at least mitigated) had there been a greater willingness to learn from the past, understand the present, and use it to predict what we can of the future.

One way to do this is to ask a whole bunch of experts a whole bunch of questions. It's not perfect – after all, the line between the 'wisdom of crowds' and 'groupthink' is not always crystal clear. But if you ask a good selection of people the right questions, forcing them to think about the past, the present and the future, a picture emerges. This picture is a 'line of best fit' forecast of where we are going. Inevitably, some of it will transpire to be embarrassingly wrong. Some we will look back on and see as half-correct. And some will be right on the money.

Of course, the purpose of asking people their opinion is not about establishing bragging rights for those Nostradamuses of the sector. It is about using the ideas, forecasts, fears, hopes, aspirations and cautionary tales expressed by experts now to guide the sector in the 'right' direction. When the Polyannas and Cassandras speak, it helps the rest of us in the middle to pause for a while – and think.

This inaugural e-MFP Survey of Financial Inclusion trends – *The Financial Inclusion Compass* – has been designed to do exactly that: to provide a sense of direction as to the future of financial inclusion and its dominant trends and areas of focus, and to track these perceptions year to year.

Sam Mendelson
Financial Inclusion Specialist
European Microfinance Platform

Executive Summary

The Financial Inclusion Compass 2018 presents the findings of the inaugural e-MFP Survey of Financial Inclusion Trends, designed and implemented over spring and summer 2018. The survey was mixed-methodology, asking for scoring of particular selected financial inclusion trends, their importance and direction of progress, and ratings of selected future Areas of Focus, as well as asking for qualitative responses on issues both granular and general – from the short to the long-term future. Respondents could choose to respond anonymously or with permission for their details to be included in the report and other publications. The survey was staggered, with a mandatory first part and several optional, qualitative questions beyond that.

We received 77 complete responses to the survey. Most respondents were based in Europe, but the focus of their work was predominantly in Sub-Saharan Africa, South and East Asia, and globally – with several more working in Middle East and North Africa (MENA), Central Asia and South, Central and North America. 25 worked for a financial services provider, 20 were consultants and support providers, 12 were funders, 8 were from industry infrastructure organisations, 6 were academics or researchers, and 6 were 'other'.

Respondents provided scores for 20 different trends in terms of their perceived importance. **Client Protection; Regulatory Environment; Governance; Outreach to Low-Income Segments; and Technology and New Delivery Channels** were seen as the five most important criteria in driving increased access and usage of financial services.

Respondents working in Sub-Saharan Africa rated Client Protection much lower than respondents overall, but saw institution-side trends such as Human Resources and Institutional Capacity Development as more important. Respondents whose geographical focus was 'global' saw Outreach to Low-Income Segments as the highest importance overall, and ranked Fund Management Practices with the lowest score of any group. Respondents working in Asia ranked Regulatory Environment the highest. Those working in South, Central or North America perceived Client Protection as exceptionally important. Financial Services Providers generally rated trends as more important than other groups did, especially in Client Protection, Industry Reputation, and New Investor or Funding Channels.

Correlating the importance across different trends reveals four, broad 'silos' of trends that cluster together. In general terms, these are:

1. **Institutions and Funding.** This is the institutional performance focus, on HR, Capacity Development, Governance, Institutional information and Back Office.

2. **Pursuing Social Mission and Protecting Clients.** This is the focus on investigating and protecting the social delivery side of financial inclusion, on Client Protection, Social Performance Management and Impact Measurement, Outreach to Low-Income Groups, and Research.

3. **Protecting the Sector.** This is the wide-angle focus on the best interests of markets and the sector as a whole, including Reputation, the Regulatory Environment and Market Information Infrastructure.

4. **Leveraging New Channels**. This is the focus on the opportunities that expansion and innovation can offer, including Technology, New Delivery Channels, New Client Segments, New Focus Areas, or Non Financial Services.

In the next part of the survey, respondents were asked to vote for up to five 'New Areas of Focus' – areas currently supported by financial inclusion that are likely to see the most significant developments in the 5-10 year timeframe. Here, respondents were particularly clear. Agri-finance was the dominant choice, with over 75 percent of respondents choosing it as one of their top five options, and it made up 18 percent of all the votes cast among the 14 options – 50 percent more than the second-highest choice. After Agri-finance, SME finance, Climate Change Adaptation/Mitigation, Housing Microfinance and Energy all scored highly. Some areas scored extremely low, including Finance for the Elderly, Fair Trade, and education.

Finally, respondents were asked to give comments on a series of questions that looked at challenges, opportunities, medium-term forecasts, the financial service providers of the future, a policy-making 'wish list', and longer-term hopes.

From both the quantitative and qualitative responses, some themes that emerged were:

1. The FinTech revolution is a potential threat to end-clients and the sector overall, but is likewise an opportunity – for clients and for providers alike.
2. These include reduced operational costs that can be passed on to clients, better communication, greater outreach, opportunities in education, and innovations in risk assessment.
3. Client Protection is seen as very important at moment, and technology is the area most moving in the 'right' direction.
4. Agri-finance is the area in which financial inclusion can cause, or respond to, the most significant developments. SME Finance, Climate Change, Housing and Energy finance are all areas that face disruption and innovation.
5. Client Protection, privacy, ensuring the value proposition of financial inclusion services, and preventing an erosion of the social focus of financial inclusion via a 'race to the bottom' in the face of new entrants, are all major challenges.
6. The financial service providers of the medium-term future will primarily be a mix of cooperatives, NGOs and local commercial banks. There is room for a range of providers, and no single model will triumph.
7. Improvement in quality and affordable (and perhaps mandatory) financial education is arguably the most important policy development that respondents would choose to implement if given the chance.
8. In the longer term, there is a strong hope for universal financial inclusion within a sector that maintains client-centricity and social mission – keeping an eye on the rationale for, and unique responsibilities inherent in, serving low-income customers.

Background & Methodology

The impetus for *The Financial Inclusion Compass* came from within the e-MFP team itself, and from recognition that e-MFP's special role as a member-led knowledge-sharing platform that includes many key industry stakeholders, gives e-MFP a unique platform to ask questions to a broad cross-selection of the sector. There are other regular surveys within the financial inclusion sector, from what used to be called *Banana Skins* (produced by CSFI in the UK), to various studies by CGAP, GIIN, CFI and others. To prevent duplication, the *Compass* was conceived to respond to what e-MFP sees every year at European Microfinance Week – a very strong appetite for discussion about the consequences of current trends, and the possible landscape of financial inclusion 5, 10 or 15 years from now. This meant identifying what the possible 'trends' are and what are the Areas of Focus likely to emerge in the medium term future, deciding how best to measure respondents' views of their importance, and what other opinions we could canvass while we had their attention.

The e-MFP Secretariat designed the survey with input and feedback from e-MFP members and Board members in the Spring of 2018. It was opened in June and it focused on soliciting the response of e-MFP members as well as important industry stakeholders working in various areas of financial inclusion. The survey was closed in late July. It was mixed-methodology, asking for scoring of particular trends, their importance and direction of progress, and ratings of selected future Areas of Focus, as well as asking for qualitative responses on issues both granular and general.

The survey was designed such that respondents could choose to respond anonymously or with permission for their details to be included in the report and other publications. It also had a staggered design – meaning that respondents could complete the compulsory section in 10 or so minutes, and also be given the opportunity to go further and spend more time on the optional extra questions.

Survey Respondents

We received 77 complete responses to the survey. Understandably for a survey conducted by a platform of European microfinance stakeholders, a majority was based in European countries. The top ten countries in terms of **respondent location** were: the Netherlands, USA, Belgium, Luxembourg, Germany, Nigeria, Switzerland, India, UK, and Ethiopia.

Responses were asked to provide their predominant geographical **focus of their work**. Of the 77, 28 are mainly focused on Sub-Saharan Africa; 25 work 'globally'; 11 in South Asia and East Asia Pacific; 7 in MENA, Europe and Central Asia; and 6 from South, Central or North America.

In terms of **respondents' role**, 25 work for a financial services provider, 20 are consultants and support providers, 12 are funders, 8 are industry infrastructure organisations; 6 are academics or researchers, and 6 cited 'other' – including one NGO, one payment company, one DFI, one asset manager, one media representative, one network, and one national association.

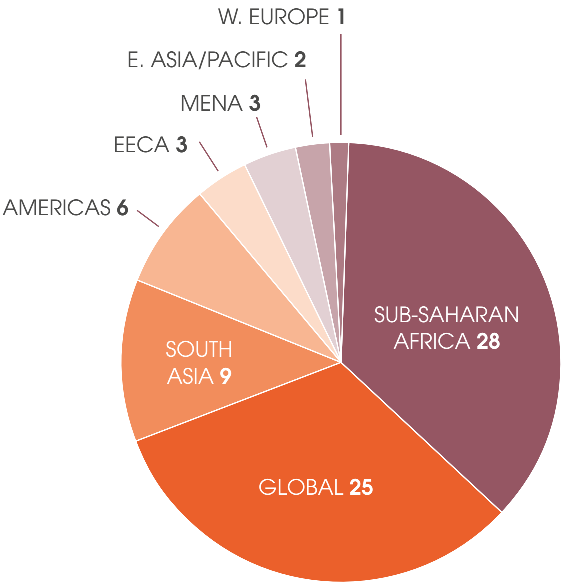


Figure 1

Distribution of Respondents by Geographical Area of Focus

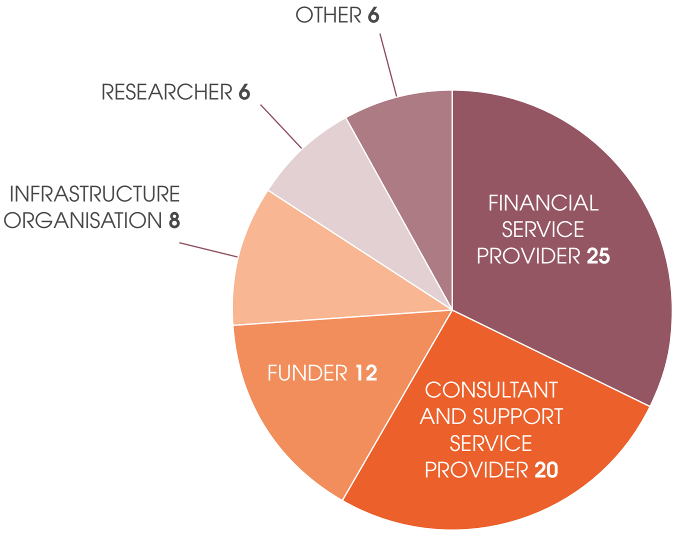


Figure 2

Distribution of Respondents by Organisation Type

Where Are We Going?
The *Compass* Trends

Please rate on a scale of 1-10 the importance of the following criteria in driving increased access and usage of financial services among current excluded segments. Please also indicate whether the trend is making positive progress – i.e. moving in the wrong or the right direction. Please add comments if you can.

The first section of the survey sought to find out respondents' impressions of the importance, and the direction, of selected financial inclusion trends.

Overall Rankings

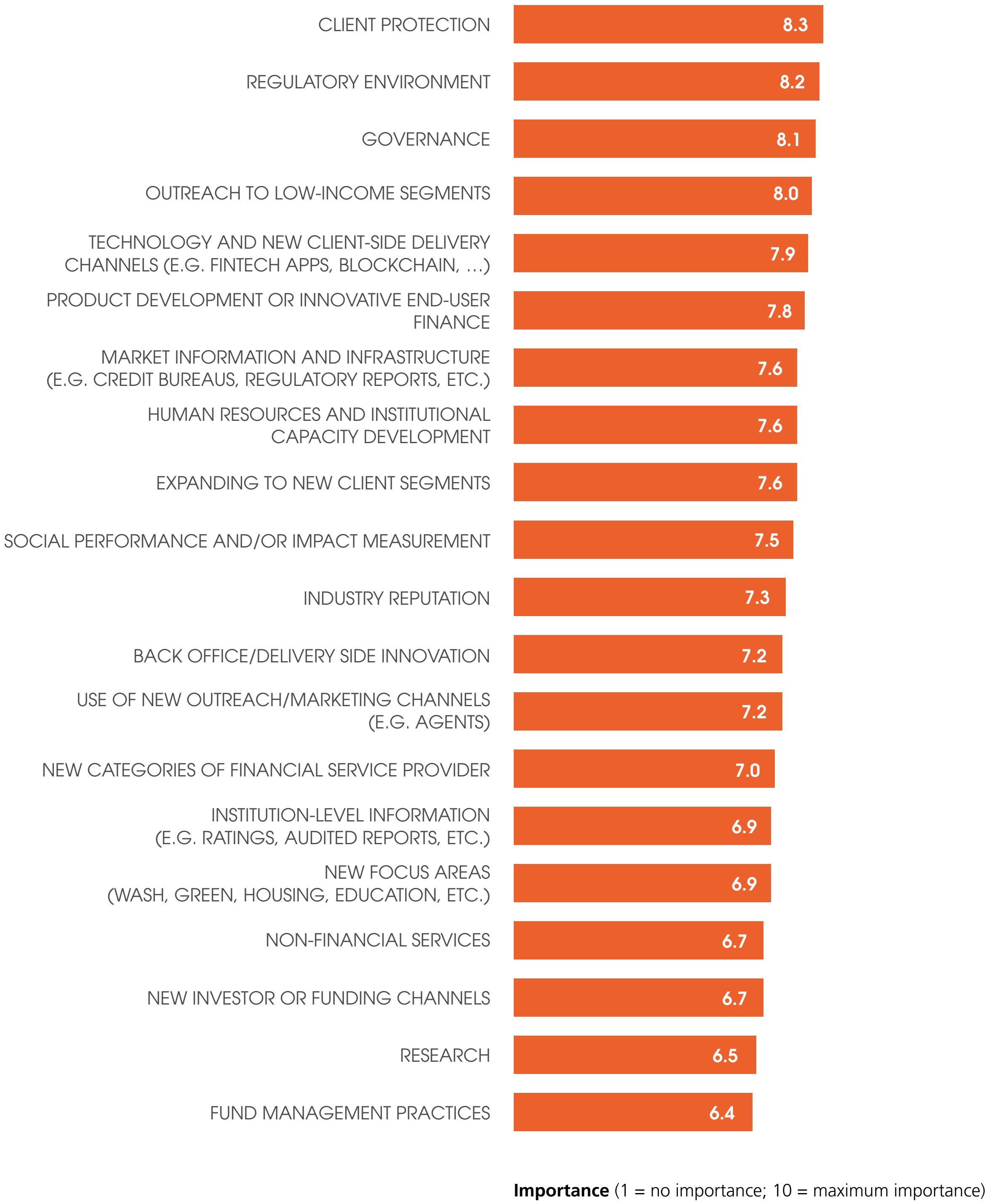
Figure 3 shows the perceived **average importance** of the selected trends, in descending order. Client Protection; Regulatory Environment; Governance; Outreach to Low-Income Segments; and Technology and New Delivery Channels are seen as the five most important criteria in driving increased access and usage of financial services.

The Top Five Most Important Trends in Financial Inclusion

1. **Client Protection**
2. **Regulatory Environment**
3. **Governance**
4. **Outreach to Low-Income Segments**
5. **Technology and New Delivery Channels**

Figure 3

Importance of Trends - Ranked



Overall, while the scores appear to have only small differences, a ten-point scale methodology often yields scores that are superficially close, but with significant differences that become clear when the distribution of scores are analysed. A remarkable 43 percent of respondents ranked Client Protection with the maximum score of 10, and 56 percent gave it a score of 9 or 10. Only 23 percent of respondents were ambivalent, giving it a middling score of 5-7. Only Regulatory Environment came close to this, with 31 percent ranking it the maximum – illustrating just how strongly so many respondents recognised the primacy of client protection. In the other direction, Industry Reputation split respondents too – a significant 17 percent gave it a score of 4 or below, despite its middling average of 7.3.

Responses by Geographical Focus of Work and Respondent Type

More is revealed by comparing perceptions of importance by respondents' geographical region of work.

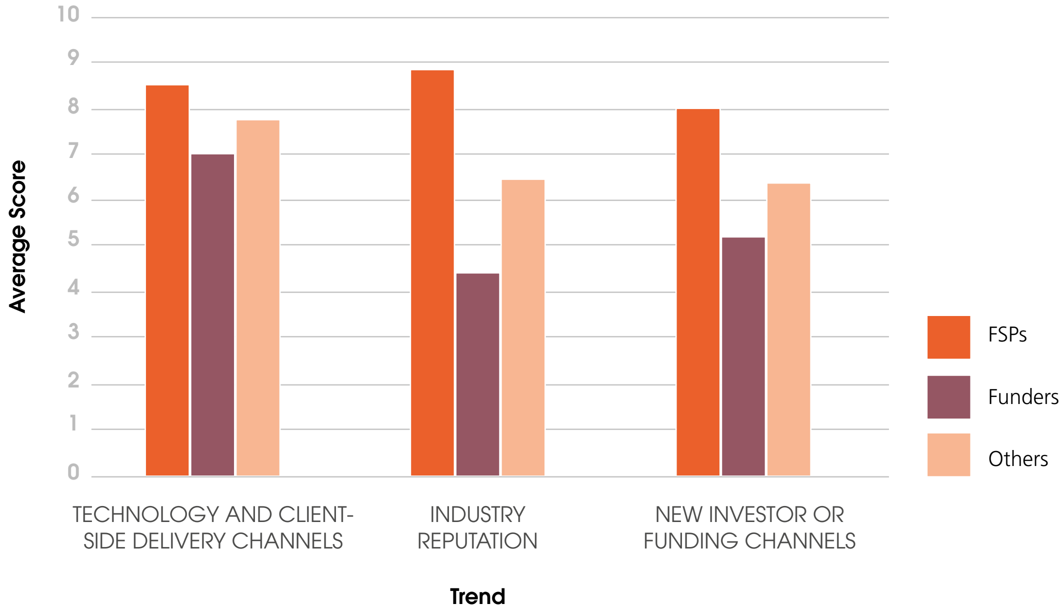
There are some significant variations in how respondents assessed different trends. Those working in Sub-Saharan Africa rated Client Protection much lower (7.7) than respondents overall (8.3), but saw institution-side trends such as Human Resources and Institutional Capacity Development (8.1 v 7.6 overall) higher. Respondents whose geographical focus was 'global' saw Outreach to Low-Income Segments as the highest importance overall, and ranked Fund Management Practices with the lowest score of any group – 5.3. Respondents working in Asia ranked Regulatory Environment the highest with a score of 8.9; Respondents working in the Americas perceived Client Protection as exceptionally important, at 9.2.

Responses were likewise varied based on the type of organisation for which the respondent worked. Financial Services Providers generally rated trends as more important than other groups did, especially in Client Protection (9.1), Industry Reputation (8.8) and New Investor or Funding Channels (8.0 v 6.7). FSPs' overall average score of 8.1 was considerably higher than that of Funders (7.2) or all Others (7.0).

Some of the significant variations between different respondent groups on particular trend are shown in Figure 4. It reveals that for Technology and Client-side Delivery Channels, FSPs not only rank it higher than other groups do, but they rank it above their own group average and in 5th place. Funders, by contrast, rank it below their group average at 11th. Industry Reputation is much more important for FSPs than for all other groups, and especially Funders. This is also true, perhaps surprisingly, for Funders' scoring of New Investor and Funding Channels.

Figure 4

Selected Comparison of Average Trends Score by Respondent Type



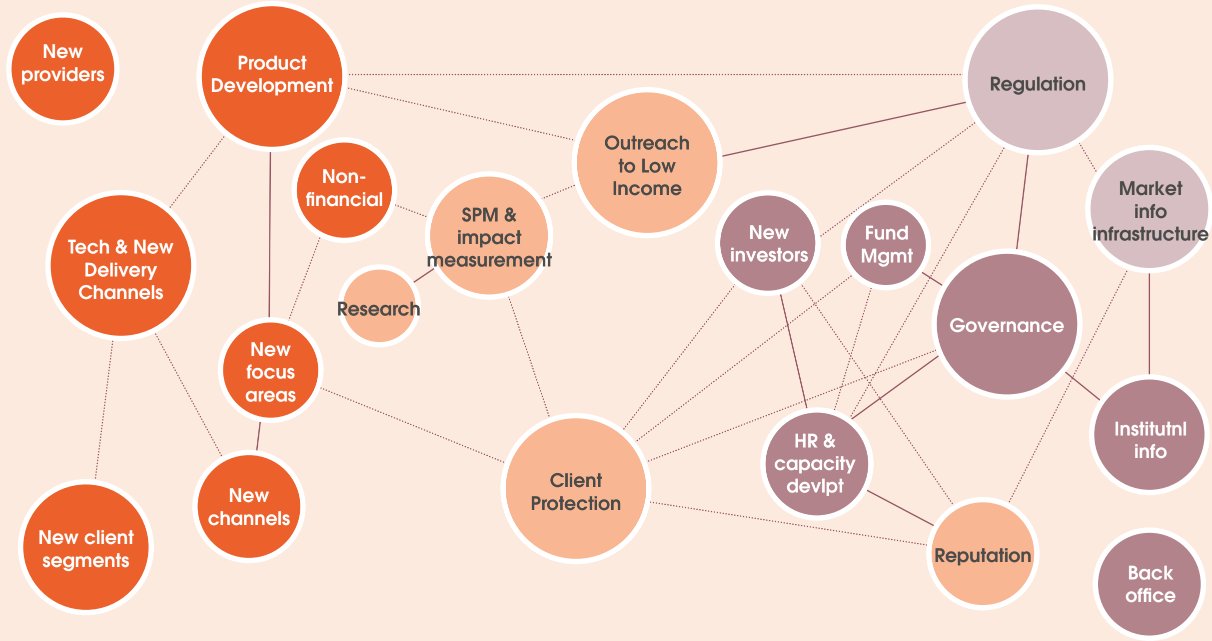
Are The Trends Moving in the Right or Wrong Direction?

Besides being asked in Question 1 to rate the importance of particular trends as criteria for success in financial inclusion, respondents were also asked whether those same trends were moving in the right or wrong direction. That is to say, are we making positive progress or not on these particular elements of the portfolio of financial inclusion challenges?

Mapping Relationship Between Trends

Figure 5

Correlations Between Respondents' Perceptions of Trend Importance



Of course, individual respondents and the groups to which they belong don't perceive trends in a vacuum; rather, there are correlations between the trends they think are important or unimportant, creating 'clusters' of trends. Figure 5 above shows the correlations between all the trends presented to respondents. The size of the circle indicates the level of importance of the trend. The thickness of the lines that connect certain circles indicates the level of correlation in responses between those trends. And the colours indicate the four 'clusters' that these correlations loosely mark out.

There are (predictably) strong correlations between:

- Institutional Information and Market Information Infrastructure
- Research and Social Performance and/or Impact Measurement
- Institutional Information and Governance
- New Investor or Funding Channels and HR and Institutional capacity Development
- Use of New Outreach/marketing Channels (e.g, Agents) and New Focus Areas (WASH, Green, Housing, Education, etc.)

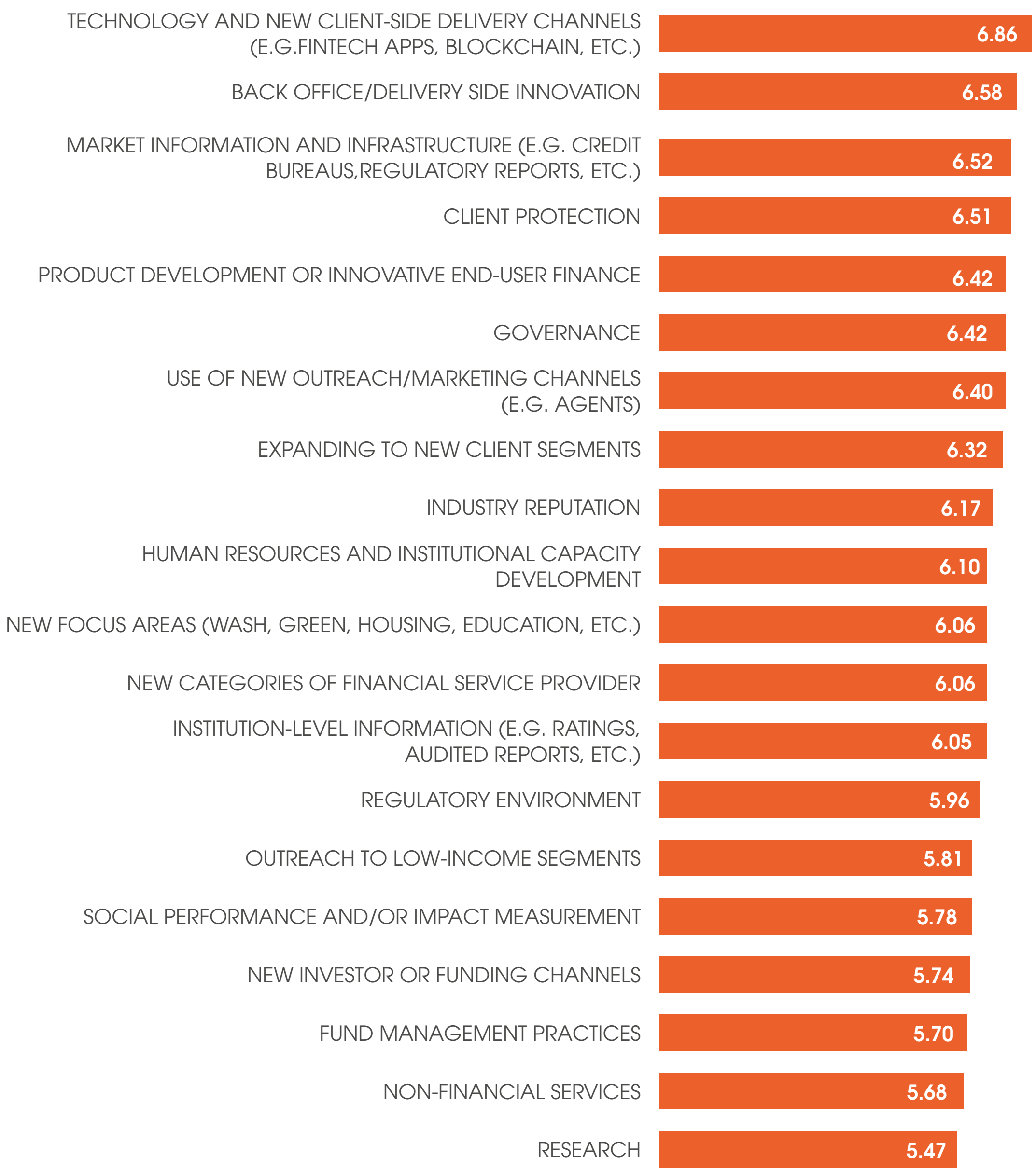
Overall, the correlations between trends presented in the first question can be described as falling into four broader tranches – the themes of financial inclusion trends today. They are:

1. **Institutions and Funding (purple).** This is the focus on funding and institutional performance, including human resources, capacity development, governance, institutional information and back office.
2. **Pursuing Social Mission and Protecting Clients (light brown).** This is the focus on investigating and protecting the social delivery side of financial inclusion, on Client Protection, Social Performance Management and Impact Measurement, Outreach to Low-Income Groups, and Research.
3. **Protecting the Sector (lilac).** This is the wide-angle focus on the best interests of markets and the sector as a whole, including reputation, the regulatory environment and market information infrastructure.
4. **Leveraging New Channels (orange).** This is the focus on the opportunities that expansion and innovation can offer, including technology, new delivery channels, new client segments, new focus areas, or non-financial products.

Figure 5 above also visually depicts a notion that emerges from both the qualitative and quantitative outputs of this survey – that Client Protection (and to a lesser degree, Governance) is a 'lynchpin' trend; with its many correlation branches it is not merely important, but perceived by respondents as affecting – and affected by – many other determinants of success.

Figure 6

Right Direction/Wrong Direction of Financial Inclusion Trends



Positive negative importance (1 = strongly in wrong direction; 10 = strongly in the right direction)

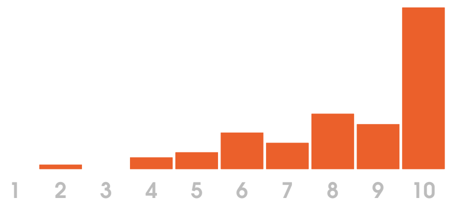
The results were less varied than in the previous part, with all scores marginally positive, and no area reporting as exceptionally positive or negative in the direction it's going.

However, Technology and New Client-Side Delivery Channels stood out in first place, and the gap between 1st and 2nd spot (Back Office, also a part of Technology innovation, just not on the client-facing side) was as large as that between 2nd and 8th. Respondents are fairly bullish on Market Information and Infrastructure too – in 3rd spot. Respondents were pretty negative about the regulatory environment – rating it only 14th in terms of how positive a direction it is moving in, while rating it second in importance. The positive progress being made in Client Protection also doesn't match the importance that respondents ascribed to it as a trend, and is only in 4th place here.

Read together, the clear importance of Client Protection in part one, and the clear positive progress of Technology in part two, are reflected in the qualitative responses to this survey, presented later in this paper, in which respondents saw technology as the dominant challenge and opportunity in the sector moving ahead (a finding consistent with the recently-published CSFI risk survey *Finance for All: Wedded to FinTech, for Better or Worse*.)

The Top Five *Compass* Trends: What Respondents Wrote

Client Protection



Client Protection was not only recognised, quantitatively, as the most important criterion in achieving the objectives of financial inclusion, but it generated plenty of qualitative feedback among respondents too.

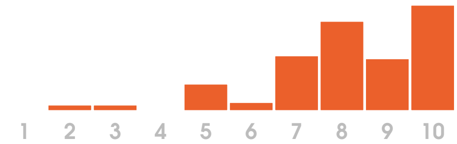
Respondents advocated the rationale, beyond moral reasons, for increased attention given to Client Protection. "*[The] importance of client-centricity is slowly gaining force; being recognised not only for its social impact, but also for its positive impact on the financial bottom line*", said a Fund Manager working in South America. They argued too for more rigour in its implementation: "*Client protection should become more of a management tool rather than merely checklist to really play a role*" – as said by a Funder working globally.

But while there is strong consensus around the importance of client protection, there is a general belief that progress is not yet fully commensurate with this importance – and this keeps some potential clients excluded. A Consultant working in South America "*detect[s] significant resistance to use [of] financial institutions' services, as many excluded perceive they are vulnerable to errors and fraud from FIs and there is no recourse to efficiently solve those events*". The scope of progress may also be "*very partial, mostly focused on sales practices, and to a very limited extent to customer data and assets protection*", according to a Support Provider working mainly in Senegal.

Others wonder if what impetus there is in this direction is confined to the talking-shops of consultants and the conference circuit. "*Though important, it does not come across as key issue at the moment a lot from MFI management*", said a Funder working in Sub-Saharan Africa. "*It is a hype topic at conferences but is there much change felt on the ground?*" asked a Sub-Saharan Africa-focused TA Provider.

Technology, permeating as it does virtually all the themes of this survey, can threaten client protection. "*More focus [is] needed on digital financial protection and on data privacy issues*", wrote a Financial Services Provider based in Switzerland. It is, said a representative of a MFI Network, "*critical to achieving real financial inclusion but the entry of many new actors who are often totally unfamiliar with poor and low-income client segments…as well as the race to digital and emphasis on (ever more complex) technology, [can] pose a real threat to client protection [via the] risk of irresponsible credit, over-indebtedness, opaque and hard to understand product information*".

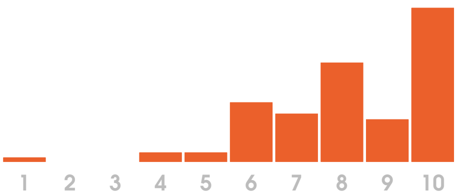
Regulatory Environment



Respondents were pretty negative about the regulatory environment – rating it only 14th in terms of how positive a direction it is moving in, while rating it second in importance. The consensus was that regulators are unable to keep up with fast-paced change, and suffer from poor priorities – "*generally more keen on taxing than developing the sector through regulation*", as one Dutch TA Provider put it, which fails, as a Bosnian FSP representative argued, to "*support and encourage the growth of microfinance industry and development of new products and services*".

Technology dominated this trend too. Regulators have to "*keep up with new innovation such as open APIs and Open Banking*", said a member of a global banking association. Several others agreed that, in terms of 'keeping up', regulators currently cannot.

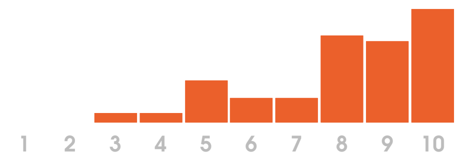
Governance



Governance is predictably most important to financial service providers and funders, and has moved from a somewhat niche concern to its current position, as a key criterion for success at the centre of a complex web of factors. Good governance is key to funding, client protection, human resources, innovation, technology uptake, risk management, and outreach to new, excluded populations. Or as a South American-focused Capital Advisor put it, "*long ignored, governance is now recognised as a cornerstone for sustainable growth of MFIs*". Many echoed the sense of overdue recognition of the importance of strong governance. "*Most partners identify this as a major topic*", said a Support Services Provider working in Africa and South America. A South Asian Consultant wrote that "*lenders and investors are quite seized [by] the governance issues and are increasingly taking measures to improve governance standards in order to generate confidence among all stakeholders.*" Institutional structure, ownership profile and composition appropriate to the inclusion mission of an institution are as important as merely having high quality people on a Board, though. "*Providing direction on the pursuit of financial inclusion…can only be accomplished if the ownership profile and composition is aligned to financial inclusion goals*", said a Sub-Saharan Africa Financial Services Provider.

But improved quality of governance overall is a success story. "*Lots of improvement",* claimed a respondent from an Industry Infrastructure Organisation, "*but still a long way to go*".

Outreach to Low-Income Segments



Reaching the most financially-excluded, low-income segments is both extremely important and extremely difficult, and progress is uncertain. Technology again runs through respondents' thoughts on this trend, as both an opportunity (primarily through lower costs and increased efficiencies) and a challenge (are new entrants solely focused on the lower-hanging fruit further up the economic pyramid, forcing traditional players to have to follow suit?) In a lowly 15th place in terms of moving in the right direction, it's clear that respondents are sceptical about what has been achieved so far – a sentiment backed up by their comments.

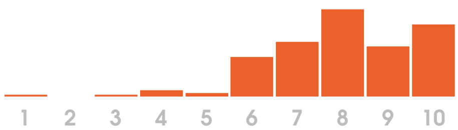
"This is our reason to be…and our fundamental (still largely unachieved) promise."

This is not just FSPs' fault; more can be done by other stakeholders. "*Despite much noise, not enough is being done to incentivise MFIs to leave their comfort zone and truly move into less glamorous regions or market segments; agricultural lending being a good example*", said a Fund Manager.

A few respondents expanded on the structural barriers to expanding outreach to poorer clients. A TA Provider working in Sub-Saharan Africa pointed out that "*[it's] still a chicken-and-egg story with many banks. They need proof [of credit worthiness], but low-income segments often do not have the means to generate this information. More work can be done to boost this pre-competitive space with NGOs and government*".

Clearly, there have been achievements. One Support Services Provider working in South Asia pointed to "*[government] support by way of subsidies and capacity building programmes in…education, health, housing, insurance, pensions etc.*" which has "*considerably expanded…outreach to low-income segments [and] which is attracting attention and interest as a source of viable and sustainable business*".

Technology and New Client-Side Delivery Channels



Oddly, the client-facing side of technology was only the fifth most important trend, despite technology as a whole being the most discussed theme throughout the survey. Nevertheless, it was the trend that respondents perceived as moving in the most positive direction, notwithstanding clear concerns about its accompanying risks.

All technology innovation is beset by hype, to one degree or another. That's no different in financial inclusion. It may be "*the most important area of focus on strategies for the future*", according to a Financial Services Provider in Sub-Saharan Africa, but *"[is] still moving so fast that negative impact is bound to happen*", says a consultant working globally. It's important to remain realistic about what FinTech is, and its purpose must be kept in perspective. "*[It] is [currently] more an ends than a means to reach specific segments – the underbanked and more vulnerable*", said a Funder. And its potential – to bring down costs – "*has NOT AT ALL been translated into fact yet*", wrote another Funder who works in Sub-Saharan Africa.

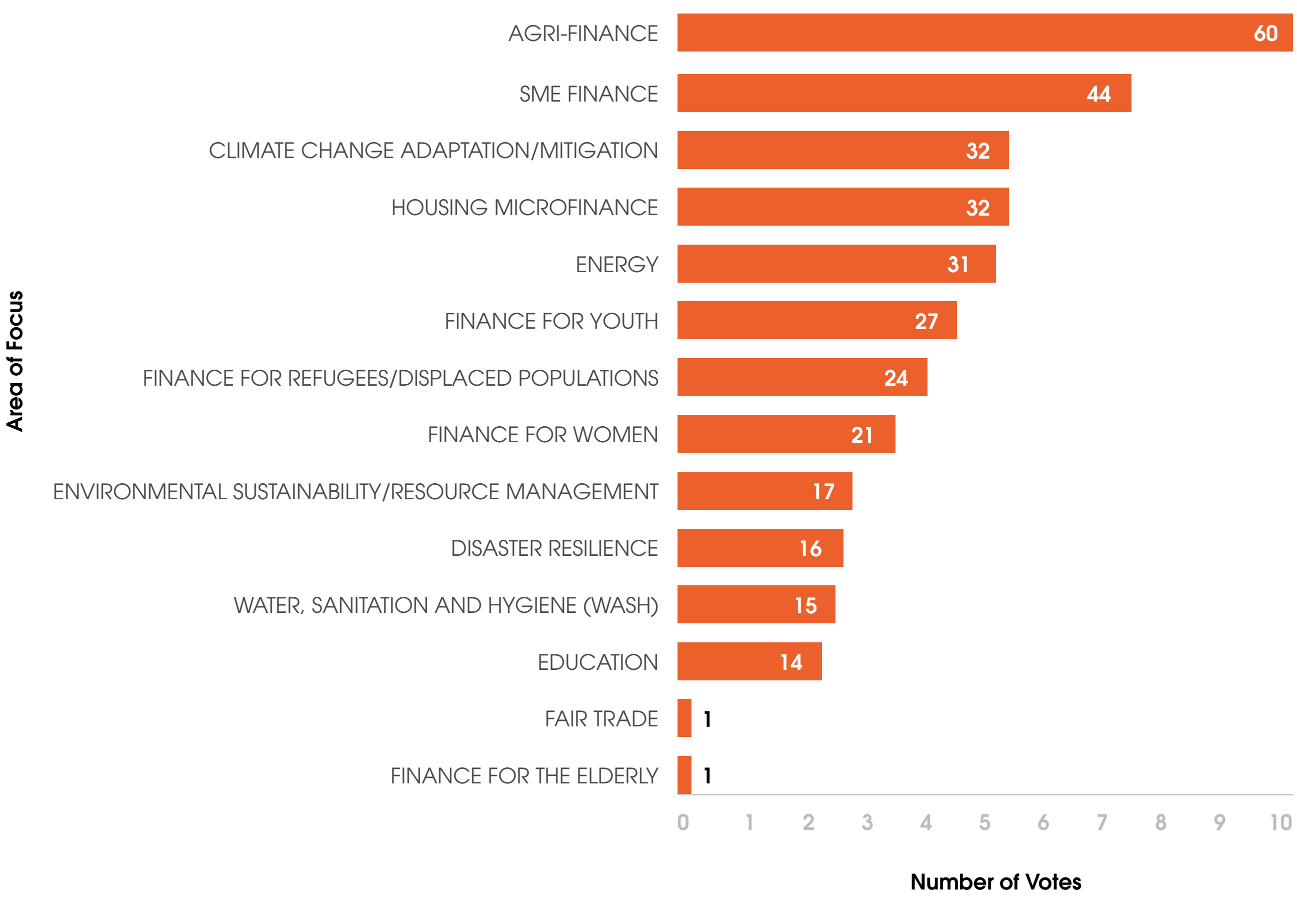
"Sometimes it is difficult to select the best FinTech provider in the forest of many small and stable new enterprises in this up-coming market segment."

Coming Into View:
New Areas of Focus

In your opinion, which of the following areas, which financial inclusion is already supporting, are likely to see the most significant developments in next 5-10 years?

The second quantitative part of the survey moved the goalposts from the present (what are the current trends underway in the sector and how important are they to achieving agreed goals) to the medium–term future. What will be the New Areas of Focus, among those offerings, services and initiatives that go beyond 'core' microfinance products, which will be most significant in the next five to ten years?

Figure 7
Importance of Areas of Focus in Next 5-10 Years



New Areas of Focus: What Respondents Thought

Here, respondents were particularly clear. **Agri-finance** was the dominant choice, with over 75 percent of respondents choosing it as one of their 3-5 options, and it made up 18 percent of all the votes cast among the 14 options – 50 percent more than the second-highest choice. As well as the highest score, Agri-finance had one of the most consistent too, ranked at the top by all respondent groups, except researchers.

After Agri-finance, the topics of SME finance, Climate Change Adaptation/Mitigation, Housing Microfinance (the theme of the European Microfinance Award 2017) and Energy all scored highly. Some areas scored extremely low, including Finance for the Elderly, Fair Trade, and – surprisingly, considering the very enthusiastic response to the European Microfinance Award 2016 on the subject – Education. Of course, the framing of this question can mean that a low score does not imply low relevance, but either that the key momentum for innovation has already taken place, or that the area of practice remains too young or too poorly understood to be on the medium-term horizon of many stakeholders.

Digging a Little Deeper:
How Different People Ranked New Areas of Focus

There were some revealing differences in how respondents working for different organisation types and in different geographies saw the important developments of the next 5-10 years.

In terms of where respondents' work was **geographically focused**, Housing Microfinance was forecast by those working in Asia (who gave it the highest number of their votes) to see particularly significant developments. Respondents working in Sub-Saharan Africa understandably saw Finance for Refugees/ Displaced Populations as likely to undergo considerable change, and those working in the Americas were extremely bullish about developments in SME Finance, an Area of Focus they rated even higher than Agri-Finance. EMEA-focused respondents, by contrast, saw SME Finance as a low-ranked area in terms of prospective developments; and those working 'globally' rated Housing very low in this regard – their second lowest ranked category of all. Overall, there is a significant gap between, on the one hand financial services providers and others working in the field, and on the other, the funders and others with a more global perspective.

In terms of **respondents' organisational or professional role**, the small number of Researchers forecast SME Finance and Climate Change Adaptation/Mitigation to be the areas most likely to see significant developments. Financial Service Providers gave their second-highest number of votes to Housing – a positive outcome from e-MFP's perspective, considering the efforts taken during the European Microfinance Award in 2017 to increase the profile of this issue. Funders saw Energy as an area of major flux and disruption, likely reflecting the rapidly expanding landscape of wholesale financing options for Distributed Renewable Energy solutions. And Consultants and Support Providers saw Finance for Refugees/Displaced Populations – the Area of Focus with the most variation of all among respondent types – as a key New Area of Focus in the years ahead, albeit far behind Agri-finance.

What Respondents Wrote

Agri-finance

Agri-finance was considered by respondents to be especially ripe for innovation, disruption and flux in the medium term future. They pointed to its complexity, and particular transformational potential for unbanked smallholder farmers and families. The drivers of this innovation, however, go beyond the direct benefit to farmers, and are part of adaptation to a warming planet and population growth. It is, said a Funder in Sub-Saharan Africa, *"THE challenge of the planet to feed the world under the constraints of water and climate change"*.

As with most themes, respondents pointed to ways technology can be the impetus for this change. *"If blockchain took off, it could offer new solutions to documenting land ownership and related financing opportunities"*, wrote one Support Services Provider in Sub-Saharan Africa. *"The use of Artificial Intelligence to support farmers and monitor harvests is accelerating"*, said a global FinTech provider.

Another respondent working in Central America identified the *"twin drivers"* behind why agri-finance will see such transformation. *"[First], large and medium companies willing to obtain direct access to producers, bypassing intermediaries and small and medium producers lacking financial support to ramp up production; and [second], technology is helping to connect both at a lower cost, with financial institutions (including new players) acting as new intermediaries"*.

"Will commercial parties be able to play a more significant role in the (Agri-finance) sector?"

SME Finance

In contrast to Agri-finance, in which respondents stressed the opportunities ahead, respondents overall described SME Finance, while also likely to undergo significant change, more susceptible to the risks of failure to meet this challenge – to serve the so-called "missing middle".

Respondents bemoaned that SME Finance too often falls between the gaps. It's both extremely hard (*"It continues to be a struggle to prove graduation in microfinance"*, replied an MIV Manager working in Sub-Saharan Africa), and therefore *"mostly forgotten by incumbent financial institutions"*, according to a UK-based Support Provider focused on Central America, despite the multiple public policy benefits that can accrue from serving this segment – more formal employment, higher tax revenues, and *"as a by-product if the policies are effectively aligned, greater financial inclusion through the use of financial services to the SMEs employees and their families"*. If there was a consensus theme, it's that SME is a topic of endless debate within the sector, with little – yet – to show for it – *"with the possible exception of crowd (equity) funding"*, according to a TA Provider.

There was an upbeat minority, however, who cited *"much innovation going on now after many dormant years"* – according to a US-based Researcher – and *"expect [a] further shift towards SME finance, contributing to job creation and economic development"* – according to a Fund Manager in Sub-Saharan Africa.

"(SME Finance) is a grey segment - too large for MFIs; too small for banks".

Climate Change Adaptation/Mitigation

Appropriately for this most broad reaching of challenges, respondents were full-throated in emphasising the importance of developments in this area. *"Urgency"*, demanded a Dutch-based Financial Services Provider. A *"must for agri-dependent countries"*, insisted a representative of a national-level Microfinance Association in South Asia.

The overlap between Climate Change Adaptation and Disaster Resilience was a common observation too – and had the two Areas of Focus being merged into one, it would have challenged Agri-Finance at the top. *"Should be up there [as a priority] with disaster resilience"*, replied a global Support Provider. But disaster resilience may be the proverbial low-hanging fruit: *"I expect [climate change] to increase in importance [after] 5-10 years, but first [I] expect developments in disaster resilience"*, wrote one Funder working in Sub-Saharan Africa.

The Best of the Rest: Selected Comments on Other Areas of Focus

Survey respondents gave a wide variety of interesting feedback on some other Areas of Focus outside the top three.

Housing Microfinance (the subject of the European Microfinance Award 2017) is "*responding to market need*", according to one global Funder, and "*increasingly recognised as contributing to better livelihood conditions. Expect this will continue to increase*", according to another.

Energy will grow in importance because "*devices will [reduce in price] and will be available for low income [populations] in near future. [But] subsidies complicate the creation of markets*", wrote a North American Financial Services Provider.

Education (the topic of the European Microfinance Award 2016) remains "*very hard to reach scale*", according to one respondent, and another said they "*would hope that much more happened in this field, but I am not too optimistic*", replied a Support Provider working in Sub-Saharan Africa.

Finance for Refugees/Displaced Populations generated a lot of comments, commensurate with the emotiveness of the subject, its complexity, and the political nature of any response. One the one hand, it is *"Absolutely something we must learn to do"*, replied one global consultant. But progress being made here is just "*responding to donor needs/European governments' challenges…it seems the latest hype indeed*", argued a Funder working in Sub-Saharan Africa. A Support Services Provider argued that the sensitivity of the subject mean it gets too *much* attention: "*Due to political issues, this one [is] most likely to receive too much in relation to impact*". The complexity of challenges and solutions – "*…the interrelated subjects of remittances, payment systems, diaspora investments in rural areas, migrants', refugees' and displaced populations' need to access finance"* – was outlined well by one global Funder.

"Finance for refugees is the major political and social challenge of our times – it is conflict (and increasingly climate) related".

The Challenges and Opportunities Ahead

The optional, qualitative part of the survey asked respondents to give their thoughts on a variety of topics, from current challenges and opportunities, to the role of different financial services providers, ideas for new policies, and forecasts and hopes into the medium and long-term future.

Challenges

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

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.

"Governance; the democratisation of products and services; and financial transparency" are the *"main foundations"* of financial inclusion, argued a Payments Solutions Provider working globally, *"allowing a better offer of products and services for the benefit of populations in precarious situations"*. However, particular segments have particular needs – and product diversification must be the response to these needs.

The need for more product diversification was a repeated theme, especially because of the homogeneity of products "*reaching the same people, limiting expansion and scale*", according to an Ireland-based TA Provider. Part of this is the age-old 'low-hanging fruit' problem, which has been endemic since the beginning of the industry. "*Resources flow to easy-to-operate markets that are better evolved. This is not helping people in difficult environments*", wrote a Financial Services Provider in Sub-Saharan Africa. Resources flow not just to low-hanging markets, but the easier, 'pull products' like credit. *"We've seen reductions in savings and emergency funds. There needs to be more focus on financial health and financial resilience moving forward"*, wrote one Researcher. Ensuring the affordability of (particularly) longer-term finance ("*for clients in housing, energy education and agri-finance*") is crucial too, argued a TA Provider working in Africa and Latin America.

Another respondent working in Sub-Saharan Africa observed that bringing excluded segments to the formal system has its own disincentives for the client: *"Most of the financially excluded operate in the informal economy, and are thus difficult to serve - mobile finance could have potential for them (cutting costs of reaching them, assessing them, and building their credit history), but it exposes them to the taxman."*

"Lack of enough skill(ed) and dedicated (MFI) staff, and credit information bureaus."

Several respondents identified financial literacy as a fundamental challenge, inherent to, even inseparable from, the challenge of reaching low-income segments. *"Microfinance inserts itself in a socio-economic context, which it cannot address by itself"* said a Funder representing a European government, who added however that financial literacy services *"are not the unique solution to this problem...rather, financial solutions need to be adjusted to the client segment, while at the same time protecting the illiterate customer."*

Other challenges are external to the sector itself, but equally important to its prosperity. *"A lack of disposable income makes universal access redundant if people are confronting existential threats and income is so low that money barely stays in their pockets"* wrote a Support Services Provider working in Central America, adding that *"any financial inclusion strategy should be preceded and run alongside macroeconomic policies fostering job and real wage growth"*.

Finally, some respondents pointed to the recently published *Global Findex* as evidence of pernicious challenges that remain, from the gender gap, to stagnating usage in the face of myopic, politically motivated initiatives to drive account uptake among excluded groups. One Researcher wrote: *"As [the Findex] shows, while financial access has improved, usage has remained stagnant. Financial inclusion is not achieved through dormant accounts - therefore, as a sector, we should be deeply concerned about what these results are telling us."*

"Ensuring that access results in quality."

Opportunities

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

More so than anywhere else in this survey, Technology was the clear theme when respondents were asked where they saw the opportunities in financial inclusion.

Respondents cited many examples of the transformational potential of FinTech in reducing costs, increasing outreach, improving communication and streamlining credit scoring or risk management – many of the technology-enabled services and solutions presented by the applicants for the 2018 European Microfinance Award on *Financial Inclusion through Technology.*

Some focused on financial products and the platforms to enable them. Said one Support Provider working in Sub-Saharan Africa, "*mobile-phone based savings and social transfers: Savings have proven impactful (while credit rarely has), mobile-phone based social transfers can substantially cut the problems of such programs (fraud, corruption etc.), and they can thus solve the problems that most attempts at micro-insurance have not been able to overcome*".

Others pointed to new entrants as welcome disrupters – *"New stakeholders entering the market – pushing existing ones to 'improve or die'!"* (according to an African-focused consultant) – or, in the opinion of an Sub-Saharan Africa-focused Financial Services Provider, to the efficiencies that moving beyond brick-and-mortar microfinance can bring: *"Because [Technology] will eliminate the need for door-to-door marketing"*.

Some perceived the outsized potential of FinTech to reach rural and remote communities, even if the underlying motive is somewhat different. *"Domestic agri-value chains will increase in importance to feed the cities…this offers opportunities for sustainable agri-finance and business models"*, wrote one Funder. And smallholder farmers were widely thought to be among the biggest potential beneficiaries of the FinTech revolution. An African Financial Services Provider predicted that *"the [use] of modern farming in line with climate smart agriculture could change the reach to smallholder farmers."*

But technology must not be blindly adopted for its own sake. It must be integrated with the best, provably successful components of the existing financial inclusion ecosystem – and done so with a holistic focus – an attention to innovate and improve beyond just the introduction of a technology.*" Financial services [should be integrated] in value chains and multi-actor settings with a clear chain orchestration function"*, wrote one Support Provider working in Sub-Saharan Africa, adding that *"most poverty and the most important finance gap remains rural and in smallholder farmer communities [and] the best way is too reach them in groups, such as farmer cooperatives, but then the performance of those cooperatives and their governance, and information transparency has to improve too."*

All positive development in financial inclusion starts from the first principle: what do clients want and need? This applies as much to the Technological platforms that are eagerly introduced as to the financial products that those platforms are designed to provide. Or as one Consultant put it, *"When using the new technologies wisely, i.e. developed from the point of view of the client (and not from a purely commercialisation point of view), clients will get more value for their money."* Technology, put most simple, is a means and not an end. It's an immense opportunity – if done with thought, intelligence, and a clear purpose in mind.

"Is (universal access to financial services) really the goal? Sometimes saving and loan groups just work fine, without being defined as "universal access".

Thinking Ahead:
Respondents' Policy Wish Lists, Forecasts, and Hopes

A Policy-Making Wish List

What 1-2 policies would you introduce, either in a particular market or sector-wide, which would increase progress towards the goal of financial inclusion?

Respondents appeared happy to be asked the pseudo-hypothetical. There was little in the way of a unifying theme among responses (other than recognition of the importance of financial education). For this reason, the following selected responses are presented without comment.

Selected Policy-Making Wish lists

"Special intervention funds to invest in countries when other commercial funds withdraw, or to recover an MFI that have to overcome an important setback, but that has all chances to recover, or too raise equity in most successful cooperatives that are limited in equity raising in a cooperative structure"

Sub-Saharan African Support Provider

"Offer health cost refund and an old-age-pension to everybody who saved at least 2% of national poverty-line amount in 4 out of the previous 6 months"

Sub-Saharan African TA Provider

"Introduce a triple P (people, planet, profit/ prosperity) top line (rather than bottom line) approach to financial market evaluations and supervision"

Sub-Saharan African Funder

"I would strengthen the measures to assure financial institutions the possibility of recovering defaulted loans. In Mexico, [those] not paying, either do not [suffer] consequences or it is extremely expensive and [time-consuming] to collect, to the point that is not worth it. People are aware of the difficulty and sometimes use it in their favour"

North American Financial Services Provider

"Obligatory credit reference check and providers a borrower can work with"

Sub-Saharan African Funder

"Support to qualified financial institutions to focus more on client protection side (insurance, savings, etc.)"

Sub-Saharan African Funder

"In agri-finance – a wider definition of collateral, e.g. the produce of tree crops. Even if [produce is] sold this week, there might be new produce next week, or next month or next year. The tree is there and will not be cut just to run away from a debt"

Global Support Provider

"The regulators [should] consider having unified and reliable data of clients and allow MFIs to access the data [for a] price"

East Asian/Pacific Financial Services Provider

"Mandatory Financial Education."

Which Financial Services Providers Are Needed?

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?

Respondents spoke in relative unison on which FSPs can best provide quality services at scale. Interestingly, almost all the written responses advocated a mix of cooperatives, local commercial banks and NGOs – performing complementary roles.

Several respondents explained that the right FSP would be context dependent. "*MNOs/ NBFIs/Cooperatives… the mix depends on the context of each country and customs of the low-income clients in each country or even within a country for a certain region*", wrote one Researcher. "*We need a mix of types of organisations to complement each other depending on their specific type of regulation, potential reactivity, means for research, type of shareholders or partners etc.*", replied a Funder.

Institutions with a more typically social mission have certain advantages. "*Cooperatives and NGO MFIs [are important], because of their close relationships and connections with the target groups…they are less bureaucratic, but can assess better on known relationships and context knowledge*", wrote a Support Provider. A TA Provider gave a useful summary of the inevitable trade-offs between FSP models – and the importance of the public sector's role in managing this. "*NGOs have the best large-scale outreach to low-income-customers – but are often not sustainable. Regulated MFIs have the best sustainable large-scale outreach – but usually not to low-income-customers.*" This barrier, they argued, could be overcome only by appropriate incentives by the regulator.

Governments and regulators play an important role according to other respondents too, who emphasise the need for cooperation and symbiosis with FSPs. "*If government policies through G2P are designed as complementary with local commercial bank policies, insurance companies, mobile operators [and] FinTech companies*", replied one Support Provider working in Sub-Saharan Africa, *"then [we] really can outreach un(der)served segments with high economic untapped potential: women and youth entrepreneurs in MSMEs.*"

"We should be looking at partnerships among FSPs - there is not one to fit all market circumstances".

There may be seats at the table for regulated banks and MFIs as well as NBFIs, cooperatives and NGOs now, but will that change over time? One Funder working in Sub-Saharan Africa saw a natural evolution: "*Short to medium term: NBFIs. Local and international commercial banks can play an important role, but their interest…in servicing low-income clients has been fairly limited to date, due to the limited scale it provides them. NBFIs have a stronger drive to focus on impact and on low-income clients. With the help of digitisation of services, adequate funding and partners, scale [for commercial banks] can be achieved.*"

"The ideal mix would be small-sized commercial banks, cooperatives and microfinance institutions."

What's Down the Track?

If you wish, what are some of your forecasts for trends in the financial inclusion sector in the short to medium term (3-5 years)?

More than anywhere else, Technology – with its opportunities for outreach and scale alongside its potential threat to clients – dominated responses to this question. Respondents were concerned about (mis)use of new resources of client data, surveillance and privacy, and the obvious disruption that the increasing role of digital financial services will inevitably bring – for better or worse.

Respondents cited "*the growth of the surveillance state*", "*problems with cyber security*" and "*increasing domination of [the] field by super-platforms such as Ant Financial, Facebook, etc.)*". The zeitgeist informed forecasts beyond the sector itself, and current macroeconomic and geopolitical volatility made an unusual appearance in this survey, too, with forecasts by a Sub-Saharan Africa-focused TA Provider of "*a major international financial crisis created by the current US administration, [and an] increasing number of channels through which that might occur by the day (pro-cyclical tax policy, unsustainable energy policy, one or more wars, break-down of trade system, etc.)*".

Some respondents foresaw a retreat from the hype surrounding the FinTech/DFS revolution. One TA Provider's "*uneducated guess is that [blockchain] will not yet reach the microfinance space (other than fancy conferences) in this time period.*" A Funder and representative of an Industry Infrastructure Organisation focused on Sub-Saharan Africa predicted "*a crisis in DFS – with major reputational issues involved*". This respondent cautioned against the risk of "*overregulation and non-adapted regulation*", but also positive examples of "*sensibly used technology that facilitates access for excluded populations and that demonstrates efficiency gains and lower cost to end clients.*"

Reduced operational costs to serve end clients was a consistent theme, as was the "*decrease in 'brick-and-mortar' infrastructure and increase in digital finance*" and "*increased relevance of FinTechs compared to traditional FSPs*", (according to a North American Researcher) but so too was a positive belief that this trend might be matched by a Social Performance Management infrastructure that has become well established in the years since the microfinance crises of the late-2000s. There will be, said a Researcher, a reduction in the "*digital divide for women*", and, according to an MIV Manager, "*higher standards on social performance (impact) measurement, and more awareness of the risk of over-indebtedness*". Let us hope so.

Respondents' Long-term Hopes for the Sector

What do you hope the financial inclusion sector or landscape will look like in 2030?

In the final part of this survey, we let respondents move beyond measured forecasts based on reasonable extrapolation of current trends, and asked them to tell us what they *wanted* to see – but in the fairly long-term future of 2030.

Throughout this survey, when asked about important trends, respondents cited client protection and technology-driven evolution. When asked about challenges, it was largely about access without compromising service and client protection. The opportunities were definitely dominated by the cost and outreach promise of digital financial services.

The longer-term, aspirational lens also incorporated elements of technology (and even technophobia), but even more so, it expressed respondents' wishes for universal financial inclusion to be reached, and the consequences that might bring. "*The role of private sector capital allocation will be less necessary to bridge the current financing gap*", said one Funder. There will be "*more collaboration with different stakeholders that traditionally do not fall under the micro-financing circle/bubble*", replied a Dutch-based Support Provider. A different Funder foresaw "*increased local funding opportunities for financial institutions, making international funding less needed*". And there will hopefully be services provided "*by a diverse set of institutions…*" wrote a representative of a South Asian Industry Infrastructure Organisation, "*…but all of them under a comprehensive regulatory framework*".

Some respondents expressed not what they hope would change, but what they hoped would stay the same. "*Beyond the larger commercial banks, I hope that locally embedded local or regional MFIs and Banks will survive*, said a TA Provider focused on Sub-Saharan Africa. Others implied that our job – driving access to quality and affordable financial services to underserved populations – will have been completed by then. "*We will certainly witness the creation of a new financial ecosystem where financial exclusion will no longer exist*", wrote one very optimistic Financial Services Provider.

Finally, one TA Provider took their brief far beyond financial inclusion, and spoke – probably for many – in expressing hope that the perils and cruelties of Late Capitalism might be vanquished by something… nicer. "*I hope for a liberal, transnational renaissance after all this more or less open authoritarian and nationalist noise and destruction of the present time. In our sphere, this would bring a refreshed interest in non- or low-profit financial services that empower low-income-communities.*"

Where To From Here?

The e-MFP Survey of Financial Inclusion Trends, which was the background and context to this *Financial Inclusion Compass,* sought to leverage e-MFP's most valuable resource – its members and other friends that together represent so many of the key decision-maker and opinion-leaders in financial inclusion – the worrywarts, the Pollyannas, and everyone in between.

It has been a rewarding first edition, revealing important consensuses (and dissenting minority views) on where the sector is and where is it heading.

Our hope is that the *Compass* will not only be used as a teaching and research resource, but that, as it is repeated annually, it will serve as a unique tool to compare how values and perceptions shift over time. Perhaps, in five or ten years from now (the timeframe that some of the questions in this paper asked respondents to consider) the value of the *Compass* will change from that of a 'crystal ball' to a 'time capsule' – a revealing insight into what the financial inclusion stakeholders of 2018 had on their minds.

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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