The *Financial Inclusion Compass* 2023

The e-MFP Survey of Financial Inclusion Trends

By Sam Mendelson

EUROPEAN MICROFINANCE PLATFORM
ADVANCING FINANCIAL INCLUSION

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Foreword

Welcome to the 6th edition of e-MFP's *Financial Inclusion Compass.* When we launched the series back in 2018, it was done to leverage e-MFP's unique position as a network of stakeholder members working in all regions and across all focus areas to take the 'pulse' of the sector, to ask what people see as the current trends, the future areas of focus and the big challenges ahead.

We at e-MFP are happy and proud that this year a record number of financial inclusion specialists gave their valuable time to contribute to this important initiative and we would like to sincerely thank them all. 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 – Daniel Rozas, Joana Afonso, Gabriela Erice, Fernando Naranjo, Niamh Watters, and Camille Dassy – who provided such valuable support along the way.

We wish you a good read and hope that this paper will give you interesting food for further thoughts.

Christoph Pausch
Executive Secretary
European Microfinance Platform

Introduction

"Are we being good ancestors?"

Jonas Salk

This is the sixth *Financial Inclusion Compass*. Much has changed in the sector since 2018. Key organisations have dissolved and new initiatives - and plenty of new players - have emerged. A pandemic brought risk of cataclysm - for the most part averted - but which accelerated some trends as well. Yet the financially excluded - the most vulnerable segments that modern microfinance is supposed to support - are facing new and severe pressures from the regressive 'echoes' of the pandemic: retrenchment in gender equity, growing food insecurity, inflationary pressures, among others. It's not fully clear how many (and which) advances have been sadly undone.

Surrounding all of this is the frightening and urgent spectre of climate change. Barely a week passes without some new temperature record being shattered, or fires, or floods, or mega storms devastating livelihoods. It'll largely be the responsibility of others (many of them still children now) to somehow address this greatest challenge. But *living with it* - inculcating resilience into small businesses, poor households and the financial institutions that support them - that is the job of today for our sector. To borrow from Martin Luther King, this is surely "the fierce urgency of now".

Financial inclusion has many unique characteristics. It is ostensibly a business (although how often do we call it an 'industry' these days?) but it is a development and humanitarian framework as well. There is a need for financial sustainability - but there is certainly a moral and ethical dimension too that comes with serving vulnerable people. This is a duty-of-care that the sector has made huge advances in understanding and defining over the past 10-20 years.

But are we doing what we can and should, right now, in a sector that grows ever more complex with each year? How will those in the future view the actions (and omissions) of today? Are we being - as Jonas Salk once asked - "good ancestors"?

I would like to thank the record number of respondents from 58 countries who took part in the 2023 *Compass*. They provided thousands of cumulative scores and tens of thousands of words of comments. It is a rich - if sometimes overwhelming - task to read them all and try to consolidate in one place what they think about the present and future - and on so many topics. I wouldn't be able to do that without the invaluable support of my colleagues at e-MFP. So thanks very much to them, too.

Sam Mendelson
Financial Inclusion Specialist
European Microfinance Platform
September 2023

Executive Summary

The *Financial Inclusion Compass 2023* is the sixth in the annual series and continues with a mixed-methodology structure that includes a mandatory, quantitative part I – split into Trends and Future Priority Areas (both sections with space for optional qualitative comments) – and an optional part II with three open-ended questions. The survey was in English, Spanish and French, and open during summer 2023. Respondents could choose to have their comments attributed or not.

There were 185 responses to the survey, from 58 countries – a significant increase on last year, and the highest ever. In terms of respondents' primary **geographical focus of work**, the largest areas were Sub-Saharan Africa (24%); Latin America & Caribbean (19%); South Asia (15%); and Global (11%). In terms of **respondents category** (i.e. the type of organisation or stakeholder they represent), it was 30% Consultants & Support Service Providers; 30% Financial Service Providers; 15% Funders; 11% Researchers; 10% Infrastructure Organisations; and 4% Others. This reflects a very small increase in Funders and Support Providers compared to 2022, and a very small proportional decrease in FSPs and Researchers – while all others remain virtually the same.

Current Importance of Financial Inclusion Trends

Respondents were shown a (randomly ordered) list of 20 *current* Trends and asked to score the importance of each on a scale of 1-10, according to how important they think it is for the sector as a whole.

1. **Client protection (including for digital financial services)**
2. **Climate change adaptation and mitigation**
3. **Client and household resilience to shocks**
4. **Institutional digital transformation**
5. **Client-side digital products and channels**

Client protection is back in first place for the first time since 2018, with **Climate change adaptation and mitigation** showing a strong increase to 2nd spot, and with a considerably higher overall score than previously. Following this are last year's Top 3 (in a different order) – and then a couple of big movers – **Gender equity within FSPs** and **New financing instruments**, which has benefited from explicit prompts surrounding green bonds, etc, to just from dead last to 7th. There are then a cluster of trends in the middle that have shown little movement and consistent scores for some time. **Institutional** and **Client-side** digital trends have dropped from 1st and 2nd in 2022 to 4th and 5th respectively. And despite cacophonous hype on these topics elsewhere, **New financial technologies** like artificial intelligence, crypto and blockchain continue to elicit a collective shrug. And **Agent banking** – despite (or perhaps because of) a re-wording this year, is in last place, by an enormous margin.

In terms of different perceptions between respondent categories:

- **Client protection** is significantly more important to FSPs and funders than to consultants and support service providers.
- **Social performance management and/or impact measurement** is rated as the top trend among infrastructure organisations - but is only 5th for funders and a middling trend for FSPs and consultants.

- **Climate change adaptation and mitigation** is of extremely high importance to Funders. FSPs are the respondent group that rate it lowest.
- **Governance** is of extremely high importance to FSPs – much higher than every other respondent group.
- **New financing instruments** is rated extremely low (in 18th place) by infrastructure organisations. By contrast, funders rate it in 3rd place.
- **Client-side digital products and channels** is rated equal second among infrastructure organisations - but is only of medium importance to consultants.
- **Institutional digital transformation** is the most important trend for FSPs themselves - significantly higher than for all other respondent groups.
- Both **Regulation** and **Human resources management** are far more important to FSPs than to any other respondent group.
- **New financial technologies** are of much more interest to researchers than any other respondent group.

FSPs are a category outlier this year, much more than in any previous year. Among FSPs' top 5 trends, only **client protection** is shared with other groups. **Regulation** is very high for FSPs, but near bottom for other groups. **Governance** and **Human resources management** are also lifted much higher overall by FSPs' ratings. And **Institutional digital transformation** scores in the top 5 overall ONLY because of the extraordinarily high ranking by FSPs - other groups rank it 6th or lower. Perhaps most significantly, considering the importance of the topic for so many respondents in various section answers, **Climate change adaptation and mitigation** is top 3 for every category, except for FSPs. They rank it 15th. Does this reflect an emerging divergence in the sector between practitioners and everyone else; between the 'playwrights' and the 'critics'?

Respondents' Medium-Term 'Future Priority Areas'

Respondents were asked to choose their top five Future Priority Areas from the (randomly ordered) list of 15, looking to the *medium-to long term future*, and based on what *they themselves* would like to see, and rank them from 1st to 5th. The scores were adjusted to reflect the frequency with which they were chosen by respondents overall, as well as weighted by ranking to produce an Index score on a 0-100 scale.

1. **Green and climate-smart finance**
2. **Women's empowerment and gender equality**
3. **Agri-finance**
4. **SME finance**
5. **Financial health (including financial and digital literacy)**

The **top four Future Priority Areas** are the same as 2022, although the order has changed. **Green and climate-smart finance** has emerged as a very clear #1, consistent with the increasing visibility and influence of e-MFP's Green and Inclusive Climate Smart Finance Action Group. But its emerging dominance is entirely consistent with the comments in this and the previous section; it is becoming the most important for many stakeholders in the financial inclusion sector. **Women's empowerment and gender equality** is significantly up in Index score – as well as jumping from 4th to a clear 2nd this year. **Financial health** may have dropped a spot, but its Index score has actually significantly increased. Of course, this Index is zero-sum, so as some scores go up, others must go down. **Financial inclusion for the ultra-poor** has dropped in position and also significantly in Index score.

In terms of differences between respondent categories:

- Researchers and Funders are the respondent groups that most strongly want progress in **Green and climate-smart finance**. FSPs are much less interested in this priority area.
- **Women's empowerment and gender equality** is the Future Priority Area with the most consistency between respondent groups – all of which gave it an Index score over 30. It is a high priority for everyone – and especially for funders and infrastructure organisations.
- **Food security & nutrition** is of fairly strong importance to all groups – except funders.
- Researchers are far more interested in progress in both **Disaster resilience** and **Financial inclusion for the ultra-poor** than any other respondent group.

Challenges & opportunities

Every *Compass* survey asks about the challenges and opportunities ahead – previously in two separate questions. This time, they've been combined. Respondents *did* write about opportunities – but (perhaps reflecting growing anxiety and foreboding) much more about challenges. They did so across many topics, but particularly on client segmentation (including vulnerable and excluded populations such as women and displaced persons); access and outreach; new technological platforms and channels; innovations in understanding and serving clients; client protection; macroeconomic trends; regulation and supervision; and climate change. Finally, there were several contributions on the purpose or mission of financial inclusion – the challenge of (re)finding its purpose.

- Several respondents focused on enduring **failures to reach the most excluded populations**, in part because of an enduring disconnect between product development and context or needs and a lack of data to drive access at the last mile and ensure suitability of products and services for rural populations. Of course, **lack of access** endures not just in rural populations but for women, young people, and displaced populations.
- **Displaced populations** will continue increasing over the coming years and this sector, like others, is poorly prepared. Engaging with regulators and humanitarian organisations will be critical to make sure we serve these populations the best way possible.
- **Gender gaps** endure - and have arguably worsened. This is a collective challenge, but supervisors bear some responsibility for gender gaps for access to credit and other financial products.
- **Technology** is a twin challenge and opportunity for many, many respondents. But what comprises 'technology'? Respondents' focus is shifting, from digital transformation of MFIs, or the threat posed by fintechs, to making client facing apps and wallets usable and useful, and via emerging platforms and processes. There is (despite the lowly quantitative scores) increasing mention here of the risks and opportunities surrounding Artificial Intelligence (AI) and blockchain.

- How can financial inclusion stakeholders leverage advances in **data collection and scoring** to better understand and serve clients? There is a sense that this data is not being used well, and risks to client protection.

- **Client protection**, as in all *Compass* editions, is widely perceived as a significant – and even growing – challenge. Some respondents allude to a sense of desperation in trying to 'keep up', to maintain rigorous client protection in the face of accelerating and largely technology-driven change. Increased **cybersecurity risk** is just one of these changes.

- What's to be done? 'Keeping up' will likely involve a **combination of better coordinated, voluntary engagement by FSPs on consumer practices**; regulation that makes client protection mandatory where there are gaps; funding to give supervisory authorities the resources they need for enforcement of regulation; funding for FSPs to invest in social and environmental performance management without intolerable burden; and dissemination of lessons learned by practitioners so that everyone can benefit and implement best practice.

- Several respondents point to the challenging **macroeconomic context**, a combination of the pandemic and exacerbated by the war in Ukraine. In particular, there is concern about the global inflationary environment with implications for food insecurity. Inflation is always regressive, and low-income clients are suffering.

- **Climate change** permeates the whole survey this year, from the Trends and Future Priority Areas to all three open-ended questions. There are opportunities here – particularly in some respondents' bullishness on technological solutions to increase adaptation and resilience – but overall, respondents are extremely concerned, and see this is as the defining challenge for the future.

Enduring changes from the pandemic

"How will the financial inclusion sector be different after the Covid crisis has passed?" was the final question put to respondents in 2020's special edition *Covid-19 Compass*, who made several forecasts for the legacy of the pandemic. They included the **digital transformation** of FSPs; a **refocusing of the sector** on new segments; increased and enduring **collaboration**; **consolidation** of "*fewer but more resilient institutions…not a large number of moribund, zombie institutions being supported by donors or governments*" – and applying not just to financial providers, either, but infrastructure organisations as well; and changes in **financing** of the sector "*leading to FSPs being leaner in their staffing, and funders and internal financial policies being more conservative…this crisis may force some FSPs to accelerate not only their digitalisation but also their professionalisation*".

Over three years later, what's the verdict? The pandemic has receded from recent memory, but is its legacy yet clear? Responses this time round broadly align with the forecasts above, at least thematically. The pandemic was not a 'death knell' for financial inclusion (as was conceivable, back in mid-2020), but it led to significant and enduring retrenchments – and forced some changes too that are more welcome.

- There is, according to some respondents, a half-hidden **overindebtedness** crisis with which institutions are still struggling. This is a repeated theme – that it is no longer lockdowns or repayment moratoria which are the pressures on organisations, but the economic 'echoes' of the pandemic, seen in the macroeconomic – and particularly inflationary – consequences of the pandemic – and exacerbated by the war in Ukraine. As also mentioned in the previous question, there is concern about the regressive effects of these 'echoes' on income gaps and on the lives and livelihoods of the most vulnerable segments.

- Some respondents talk about the **government/regulatory responses** to the pandemic, and asked whether some of the interventions, necessary at the time, have had long term adverse effects?

- Respondents also cited **behavioural change**, in many groups but particularly among clients, including changes in the pattern of consumption, with greater focus on priority needs and with a longer-term horizon. Indeed, risk aversion, a sense of caution, straddles both the demand and supply sides.

- **Human resources** is a field that has changed considerably. Hybrid work is commonplace among various groups, and respondents generally cite the positive implications of this on cost and efficiency. Some changes forced by the pandemic on how providers communicate with clients, temporary at the time, have become permanent, with implications for serving the most excluded groups, and the retreat from the 'human touch' of microfinance.

- Relatedly, there is virtual unanimity that the forecasts from 2020 on **digitalisation** were well-founded. There has been accelerated adoption of some alternative channels, increased fintech participation in the sector, and higher priority given to digital transactions for clients, with commensurate increase in understanding of the importance of cybersecurity. Yet not everything has been positive. There is concern about the decreasing role of physical agents as intermediaries with end-clients and an increasing digital divide between those with high internet/mobile connectivity and those still without. Indeed, many respondents still see digital transformation and/or entry of new players as a risk to client protection, and there is some suggestion of reversion now towards higher-touch or hybrid delivery models.

Future avenues of research

Financial inclusion research always ranks low in the *Compass* Trends (except by researchers themselves). This time we changed tack and devoted an entire open-ended question to the topic. Respondents providing much in return on the potential avenues of research they would like to see pursued.

- A lot of respondents focused on lacunae in understanding how to serve different **target segments** and how the sector can better understand and meet their specific needs. This is especially true among the most vulnerable populations, and there's a real sense of too much 'top-down' product development that draws insufficiently on transparent, objective and rigorous research into clients' needs. This is especially true in the most remote areas, and the research that's needed must be understandable and accessible by all stakeholders. The gap between the academe and practitioners must be closed.

- Respondents spoke widely of how research can better inform design of **non-financial services**, particularly financial education, to complement financial services. There should be a behavioural approach here as well: how can we better understand clients' household and business decision-making, how they think about and use financial services, how is this changing over time, and therefore what is the value - or harm of financial inclusion interventions?

- Despite its low position in the quantitative section, **artificial intelligence** is a notable mention here, and there is a widespread sense that the sector needs *immediate* focus on its application and risks. This includes the implications of AI on privacy and data sovereignty for excluded populations (such as algorithm biases in scoring, and data protection for marginalised populations) and application of AI in providing resilience to vulnerable populations, especially in matters of climate change, which itself was the most widely mentioned research imperative here.

Indeed, the dominance of green and climate-smart finance topics in these final sections speaks to a clarifying message of this *Financial Inclusion Compass 2023*. More than in any of the previous editions of this series, there is a *de facto* theme for this publication that emerges from the survey. **Climate change adaptation and mitigation** is second in the trends. **Green and climate-smart finance** is clear top among the future priority areas. But the rankings don't tell the full story; the qualitative responses reveal more, and they say that green and climate-smart finance (transversally impacting everything from client protection to agri-finance, product development, financing innovations, risk management and household resilience) is emerging as *the* defining topic of the present.

Methodology & *Compass* Respondents

The *Financial Inclusion Compass 2023* is the sixth in the annual series and continues with a mixed-methodology structure including a mandatory, quantitative part I – split into Trends and Future Priority Areas (both sections with space for optional qualitative comments) – and an optional part II with three open-ended questions. Based on feedback from previous years and conversations with e-MFP members and other sector stakeholders, some old trends and future priority areas have, as always, made way for new ones – or have been re-framed for clarity. Moreover, each year the open-ended questions change; this year they were on challenges & opportunities; the enduring effects of the pandemic; and avenues for future research.

As before, respondents were required to provide their personal and organisation details - but could opt in or out of attribution.

The survey (available in English, Spanish and French) was open for four weeks in summer 2023. There were 185 total responses to the survey, from 58 countries – a significant increase on last year and the highest ever. The top twenty countries in terms of **respondent location** were: USA; Luxembourg; Belgium; France; Netherlands; Ethiopia; Peru; Germany; India; Kenya; Bangladesh; Côte d'Ivoire; UK; Italy; DR Congo; Ecuador; Nepal; Bolivia; Switzerland; and Colombia. Figure 1 shows a map of all respondents' locations.

Figure 1
Location of *Compass* Respondents

Respondents were asked to provide their predominant **geographical focus of work** – and continuing a change made last year, respondents could select multiple options, which resulted in a more revealing insight into the geographical focus on their work. This distribution of respondents (see **Figure 2**) is, in percentage terms, virtually identical to 2022.

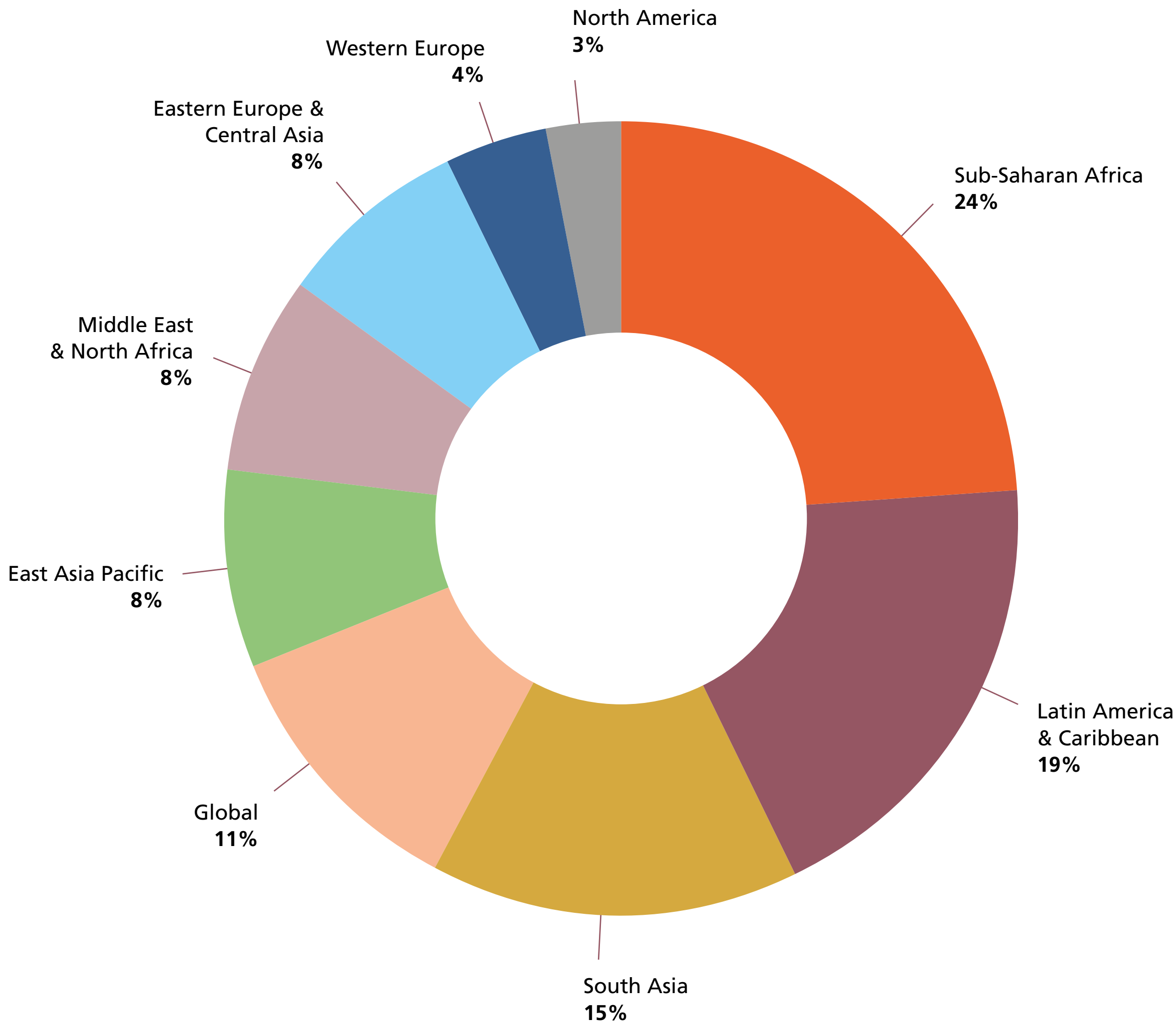


Figure 2
Distribution of Respondents' Geographical Focus of Work

The number of respondents by type (and sub-type) of organisation can be seen in **Figure 3**. There is a small proportional increase in Funders and Consultants & Support Service Providers compared to 2022. And there is a small decrease in the representation of FSPs, and researchers, while infrastructure organisations and 'other' remain virtually the same.

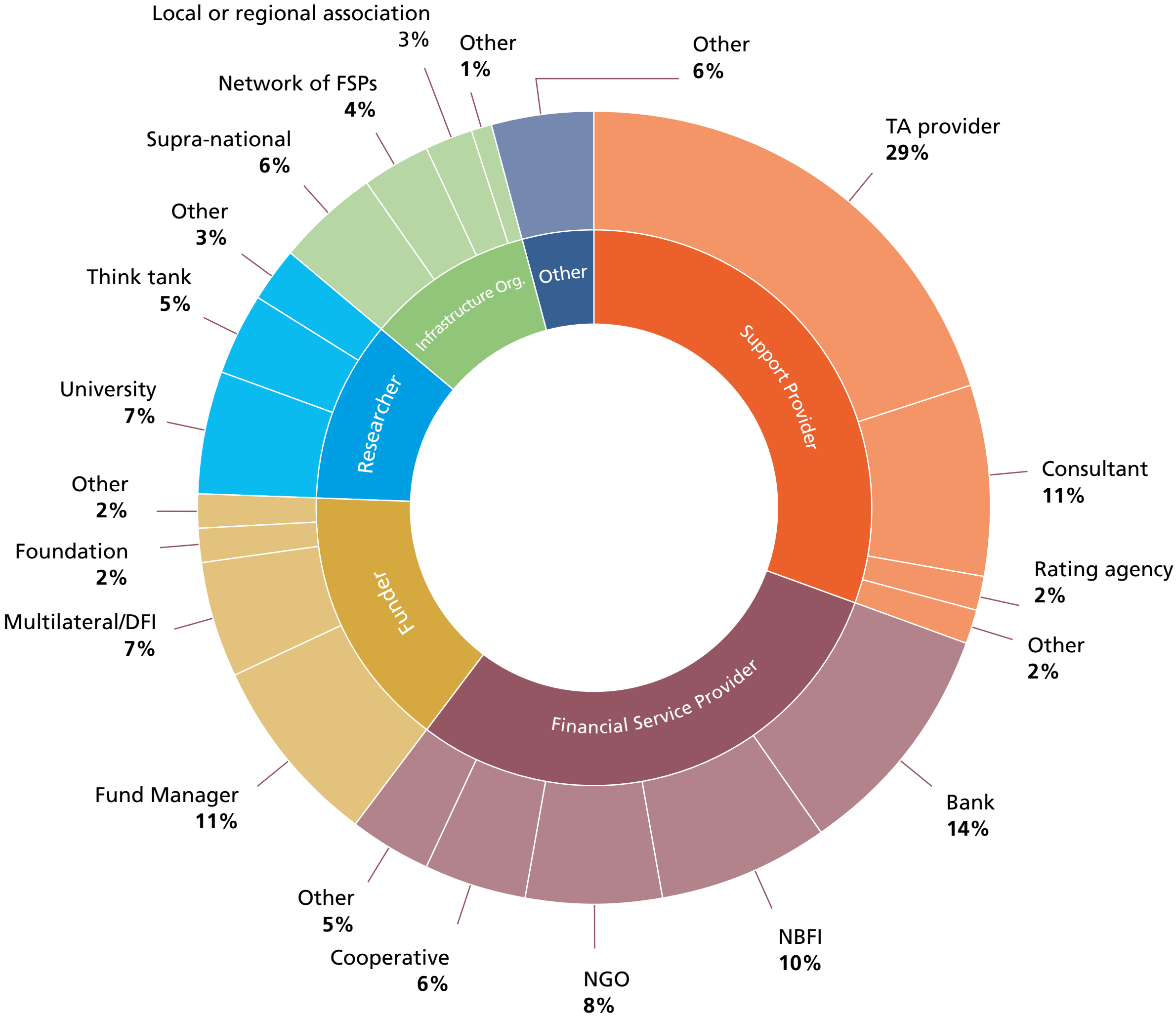


Figure 3
Distribution of Respondent Category

The *Compass* Trends

Please look at the following list of topic areas of importance/trends, in the financial inclusion sector today, and give each one a score between 1 and 10 according to how important you think it is for the sector as a whole. 1 means unimportant. 5 means quite important. 10 means very important.

"You can achieve anything, but not everything."

Amit Kalantri

Figure 4
Overall Rankings

Rank	Trend	Score	2022
1	Client protection (including for digital financial services)	8.22	5
2	Climate change adaptation and mitigation	8.13	8[1]
3	Client and household resilience to shocks	7.96	3[2]
4	Institutional digital transformation	7.69	1
5	Client-side digital products and channels	7.67	2
6	Gender equity within financial service providers	7.53	11[3]
7	New financing instruments (e.g. green finance/social/ gender bonds; blended finance, etc.)	7.51	20[4]
8	Governance	7.45	9
9	Social performance management and/or impact measurement	7.42	6
10	Financial health	7.38	7
11	New financial product development	7.32	4
12	Financial inclusion regulation	7.18	12
13	Institutional and sector-level resilience	6.94	10
14	New FSP providers (fintechs, consumer lenders, banks downscaling, etc.)	6.84	14
15	Institutional strategy and change management	6.78	NEW
16	Human resources management	6.58	16
17	Non-financial services	6.56	13
18	Institutional and market-level information (ratings, credit bureau data, etc.)	6.49	17
19	New financial technologies (artificial intelligence, cryptocurrencies, blockchain, etc.)	6.24	19
20	Agent banking	5.57	15[5]

1 In 2022 called 'Acceleration of strategic responses to the effects of climate change'
2 In 2022 called 'Strengthening of client resilience'
3 In 2022 called 'Mainstreaming gender equity within financial inclusion organisations'
4 In 2022 called 'Entry of new investors and/or new investment vehicles'
5 In 2022 called 'Development of new outreach/marketing channels (e.g. agents)'

Client protection is back in first place for the first time since 2018, with **Climate change adaptation and mitigation** showing a strong increase to 2nd spot, and with a considerably higher overall score than previously. Following this are last year's Top 3 (in a different order) – and then a couple of big movers – **Gender equity within FSPs** and **New financing instruments**, which has benefited from explicit prompts surrounding green bonds, etc, to just from dead last to 7th. There are then a cluster of trends in the middle that have shown little movement and consistent scores for some time. **Institutional** and **Client-side** digital trends have dropped from 1st and 2nd in 2022 to 4th and 5th respectively. And despite cacophonous hype on these topics elsewhere, **New financial technologies** like artificial intelligence, crypto and blockchain continue to elicit a collective shrug from C*ompass* respondents. And **Agent banking** – despite (or perhaps because of) a re-wording this year, is in last place, by an enormous margin.

Responses by Geographical Focus of Work and Respondent Category

Figure 5
Top 5 Trends by Respondent Category

Consultants & Support Service Providers

1	Client and household resilience to shocks
2	Climate change adaptation and mitigation
3	Client protection (including for digital financial services)
4	Client-side digital products and channels
5	Financial health

Financial Services Providers

1	Institutional digital transformation
2	Client protection (including for digital financial services)
3	Governance
4	Financial inclusion regulation
5	New financial product development

Infrastructure Organisations

1	SPM and/or impact measurement
2	Climate change adaptation and mitigation
3	Client-side digital products and channels
4	Client protection (including for digital financial services)
5	Financial inclusion regulation

Funders

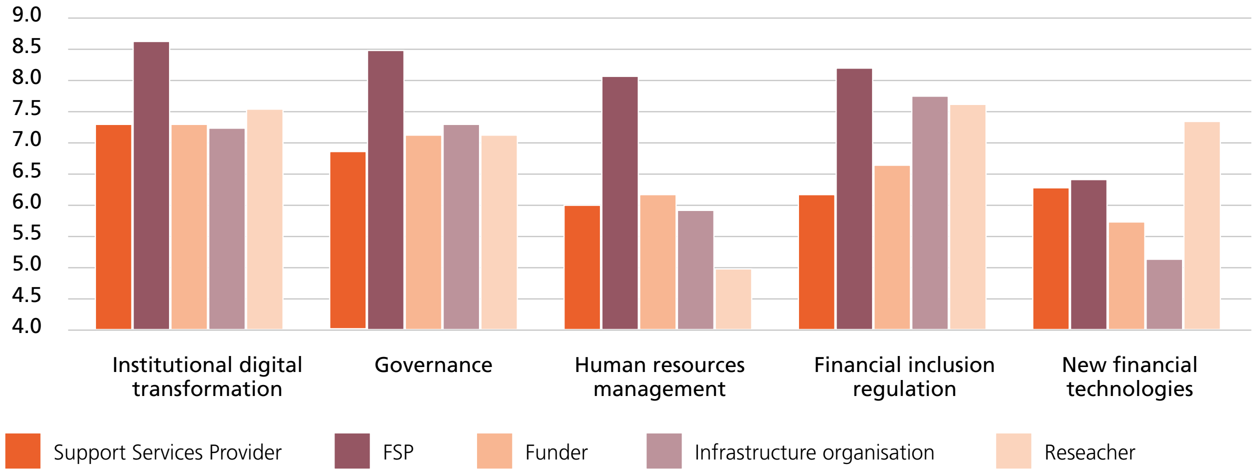
1	Climate change adaptation and mitigation
2	Client protection (including for digital financial services)
3	New financing instruments
4	Client and household resilience to shocks
5	SPM and/or impact measurement

Researchers

1	Client protection (including for digital financial services)
2	Climate change adaptation and mitigation
3	Client and household resilience to shocks
4	New financing instruments
5	Financial inclusion regulation

Figure 5 compares the top five trends for each respondent category and **Figure 6** shows five selected Trends by respondent category.

Figure 6
Comparing Selected Trends by Respondent Category



However, together these figures reveal some interesting differences in how these respondent groups perceive the importance of trends:

- **Client protection** is significantly more important to FSPs and funders than to consultants and support service providers.
- **Social performance management and/or impact measurement** is rated as the top trend among infrastructure organisations - but is only 5th for funders and a middling trend for FSPs and consultants.
- **Climate change adaptation and mitigation** is of extremely high importance to Funders. FSPs rate it lowest.
- **Governance** is of extremely high importance to FSPs – much higher than every other respondent group.
- **New financing instruments** is rated extremely low (in 18th place) by infrastructure organisations. By contrast, funders rate it in 3rd place.
- **Client-side digital products and channels** is rated equal second among infrastructure organisations - but is only of medium importance to consultants.
- **Institutional digital transformation** is the most important trend for FSPs themselves - significantly higher than for all other respondent groups.
- Both **Regulation** and **Human resources management** are far more important to FSPs than to any other respondent group.
- **New financial technologies** are of much more interest to researchers than any other respondent group.

'Different folks, different strokes': Are FSPs diverging from other groups?

FSPs are a category outlier this year, much more than in any previous year. Among FSPs' top 5 trends, only **client protection** is shared with other groups (see Figure 5). As Figure 6 reveals, **Regulation** is very high for FSPs, but near bottom for other groups. **Governance** and **Human resources management** are also lifted much higher overall by FSPs' ratings. And **Institutional digital transformation** scores in the top 5 overall ONLY because of the extraordinarily high ranking by FSPs - other groups rank it 6th or lower. Perhaps most significantly, considering the importance of the topic for so many respondents in various section answers, **Climate change adaptation and mitigation** is top 3 for every category, except for FSPs. They rank it 15th. Does this reflect an emerging divergence in the sector between practitioners and everyone else; between the 'playwrights' and the 'critics'?

The Top Six 2023 *Compass* Trends

1. Client protection (including for digital financial services)

Client Protection is back in top position among the 2023 Trends. It's a perennially high trend – 1st in 2018, 2nd in 2019, 7th in 2021, and 5th in 2022 – and the qualitative responses as always bear this out.

There is a continued sense of trepidation among responses that **gains are at risk of being eroded**, with new threats associated with rapid digital transformation of existing providers and the emergence of new ones. This year's responses particularly note the relationship between this trend and others high on the list – such as climate change, and client and household resilience to shocks – with references to how broader challenges – from food security and global inflation – put pressures on vulnerable clients and households, chipping away at their resilience and thereby further raising the critical importance of client protection.

Why does client protection matter so much – and to so many? It **"***builds trust, encourages uptake of services, and protects consumers' interests*", writes Anup Singh, a consultant. It's exacerbated by low literacy/numeracy and therefore high vulnerability, with "*the language of contracts leading to financially unsafe practices with clients regularly exposed to high interest rates, punitive fee rates and, with no understanding of legal remedies, they are often driven to crisis",* according to Richard Thickpenny, a consultant. It is increasingly important in countries "*with a high concentration of MFIs*", writes a Europe-based funder, and is a threat increasing because of "*online scammers…very common with mobile money fraud in Africa*", writes researcher Njuafac Donatus Muoshuo. And there is "*global and country level evidence of the urgency to better protect consumers in digital finance*", according to Eric Duflos, a researcher.

That's all very well, but its high importance among respondents implies **progress is uneven at best**. For one respondent from a global infrastructure organisation focused on social performance, this should be a long-since solved problem. "It is *scandalous that 40 years after the beginning of microfinance we still need to discuss this. This is just about DO NO HARM. Our priority [should be] to demonstrate that we bring positive change - impact - not that we simply protect our clients".* And if anything, we're regressing, according to Murium Hadi, who bemoans that the topic "*is still not very high on the agenda of regulators, especially as there are hardly any demand side-led pressure groups. The digital literacy of consumers is still woefully low, especially when it comes to disadvantaged groups such as women, and there's hardly any focus to design inclusive legislation, regulation, or laws."* Moreover, client protection is not without cost to the provider; Haileleul Worku Weldetsadik from an East African FSP says that CP *measures and regulation "are increasing our NPL risks, [with] follow up & operational costs on MFIs".*

But all is not lost. A respondent from a European platform writes that "*the fact client protection initiatives are being developed for different sector areas (digital financial services, agri, Pay-Go) shows that sector players are trying to adapt and ensure client protection works in every context".* And a TA provider notes that "*while the collapse of Smart Campaign caused a dip in client protection, SPTF & Cerise have now filled this gap. Their client protection standards for digital FSPs are still in development and targeted for 2024".*

> "Very "trendy" but not a lot of action to make it happen. There are highly 'talked about' (but underfunded) protection agencies"
>
> Consultant and support service provider

2. Climate change adaptation and mitigation

Climate change suffuses seemingly all areas of financial inclusion today, with virtual unanimity among respondents that it reflects **paramount short and long-term challenges to households, small businesses, and providers alike**. It's up significantly from a fairly lowly 8th last year but has been re-named (from 'acceleration of strategic responses to the effects of climate change'), and is more focused and clearer as a result, possibly contributing to its relative rise. It's up significantly in real terms, too, from an average score across all respondents of 7.37 to 8.13.

Client protection might have snuck top spot, but if anything is the *de facto* theme of the 2023 *Compass*, it's this. Many respondents – both here and also in the open-ended questions later on – emphasised its transversal nature and its short- and long-term nature, as well as how **regressive** a threat it is – it **affects the most vulnerable the most.**

The sector is *"not really prepared and is only at the beginning of reflection & work on the subject"*, writes a respondent from a European foundation. There are "*a lot of discussions, but not much action yet*", according to a consultant at a global think-tank. It is "*THE topic area nowadays*", writes a respondent from a Europe-based network, "*and hopefully in some years all the current efforts will lead to this being totally integrated in the operations and work of the different sector stakeholders".*

It will have a particular impact *"on MSMEs, especially smallholders*", according to a funder. It's not just the clients who are vulnerable either: "*Several MFIs have portfolio exposure that have the potential to erode due to the immediate and intermediate impact of climate change*", writes a TA provider working in Sub-Saharan Africa.

So, what's to be done? Answers range from the general to the specific. "*Financial services must keep in mind good living and good living means that we must put our focus on caring for the planet. Do not make [loans] that do not contemplate this issue"*, writes Maria Isbelia Gutierrez Molina, director of an FSP in South America. There is an imperative for better data as well: *"more studies should be carried out to investigate how households effectively cope against drought shocks for example, we need empirical data on this"*, writes a Europe-based university researcher.

Part of the challenge is that climate change can seem remote and abstract to those removed from it, or who have needs further down the Maslowian pyramid. A multilateral donor in South Asia says that "*this [should] be integrated as an integral part of every conversation. However, other than donor bodies demanding action, not many governments are willing to invest in it".* And while it is *"increasing as a new income stream, much is being grabbed by white upper middle-class, saviour-led organisations"*, writes an independent consultant. And anyway, **the urgent will always crowd out the important:** according to Uday Raj Khatiwada from a South Asian FSP, "*In the hard-core poor sector, clients' survival is more important than climate change".*

Part of the answer will be to frame this topic less as a looming threat, and more **of an opportunity** – a theme repeated in later sections, too. According to a European TA provider, climate change "*is relevant mainly for customers linked to the agricultural sector, the same ones who must prepare for the transition…this is a great challenge but also a great opportunity".* And it'll need concrete answers, not just moralising; Ezikiel Benard Phiri from an FSP in Southern Africa says that for real progress, *"FSPs need to be helped to see how this relates to product design".*

"Climate change is much more than a buzzword - it is the challenge for our generation and generations to come"

TA provider

3. Client and household resilience to shocks

This trend remains in 3rd place, rounding out a top three that are rated significantly more important than the rest. Indeed, this has been a high *Compass* trend since it was introduced during the Covid-19 pandemic, and like many of these, is multi-dimensional and overlaps with certain others (something that *Compass* respondents are always at pains to point out).

Client and household resilience to shocks is closely related to **institutional resilience** of course. *"If clients are not resilient, financial institutions will not be either"*, writes Franz Gomez-Soto. Moreover, it is driven by **many other factors**, from "*No inclusive insurance mechanisms or systematic protection of customers from shock"*, (according to a TA provider in West Africa) to "*low comprehension of index insurance solutions [with] too much focus on micro level instead on sovereign level"* (according to Hans Ramm), to the individual or cultural characteristic of resilience being *"not possible to measure and consider in risk measurements as a characteristic of high value"*, according to Margarita Zaldaña, from an infrastructure organisation in Central America.

There is certainly **increasing attention** to resilience. Covid-19 and climate change have really *"put the focus on vulnerability, as that is what makes households fall back into poverty"*, writes a funder. Indeed, **the pandemic** underpins many responses here, having variously threatened resilience, demonstrated it, and "*shown the importance of special, adapted and temporary measures in case of extremely difficult situations"*, according to a respondent from a European foundation. And of course, increased global instability, macroeconomic downturns and particularly **inflationary effects** threaten resilience in many populations – not just low-income markets. A European TA consultant observes the limits placed on low-income people, with "precarity *of income… a common theme…individuals do not have the social capital or networks to move to employment with higher hourly rates … .so income is constrained by their ability to work more hours*".

What can be done? There are rich ideas later in this paper on the legacy of the pandemic, but in this section at least, respondents are caught somewhat short. We need to "*increase households' adaptive capacity*" writes one researcher. And "*more information on this point is significantly needed for the market*", writes Tiurma Veronica, gender specialist at an NGO.

"Isn't this the same as financial health?"

Funder

4. Institutional digital transformation

Reflecting the pervasiveness of digitalisation (or at least, discussion about it) within the sector, this trend has always been high on the list. It was 1st in 2019 and last year, but its drop in real and relative terms to 4th in 2023 is of some significance. Although there is significant discussion in the question on the legacy of the pandemic (see p.39) is there reason to think that any impetus provided by the pandemic has cooled? Has hype given way to reality? Or merely that the increasing number and complexity of other threats has reduced its attention somewhat?

Respondents were clear that this remains *sine qua non* for traditional FSPs to survive and thrive. It is "*key to efficiency and sustainability"*, according to an FSP respondent from Sub-Saharan Africa. It "*streamlines operations, drives innovation, and enhances customer experience"*, according to a consultant in East Africa. And to be meaningful, it has to be "*absorbed within all levels of the organisation and adapted to the specific organisation"*.

If this were easy, though, everyone would have done it. It remains expensive, because of the *"fragmented nature of sectoral or governmental data*, writes a consultant to a multilateral donor. And while it's "*very important…not all financial sector players have equal resources and capabilities*", according to an independent consultant in Central America. Plus, "*organisations are often too small and multivariate to truly benefit from high levels of transformation*, writes Richard Thickpenny, adding that "*within the sector the various ecosystems of finance, funders, stakeholders, partners etc. have limited system compatibilities".* Add to these concerns some others about emerging "*security issues surrounding financial technology*"; digital transformation being "*popular hype*" that is ill-defined across the sector; and the relative dearth of strong contributions compared to earlier trends and earlier years - and there's a general sense that, for some respondents at least, this is yesterday's news.

> "It is important… but already fully on the way"
>
> Respondent from infrastructure organisation

5. Client-side digital products and channels

Like its institutional counterpart, Client-side digital products and channels has dropped in real and relative terms from 2022 (when it was 2nd) and previous editions (3rd in 2021 and 2019). If there is a tenor to the comments from respondents, it is one of pullback from overwrought hype. Indeed, the pandemic, far from catalysing the uptake and roll-out of client-facing DFS, has perhaps had a countervailing effect as well – reinforcing for many stakeholders the importance of higher-touch, legacy delivery models.

There's no doubt that respondents see the conceptual value in **nudging clients towards digital products and services**. They *"enhance customer convenience, personalization and engagement, and drive digital inclusion"*, says a TA provider in Sub-Saharan Africa. They "*can help financial institutions in reaching the last mile in a cost-effective manner"*, writes another in South America. It's "*very necessary as most financially discriminated clients live in rural areas with very poor infrastructures such as roads"*, according to Njuafac Muoshuo, a researcher. And it is "*pushed by competition from fintechs*", writes a funder.

Digital financial services (DFS) have dominated or even monopolised financial inclusion debate for at least a decade, with new entrants competing with traditional providers to ostensibly **remove barriers to access and lower costs,** driven by improved connectivity and more affordable smartphones, but in doing so upheaving a high-touch model of microfinance that has for decades placed the loan officer at the centre of the client relationship.

For some *Compass* respondents, the digitisation of the client's interaction with the provider has **moved too fast** for the underlying preconditions to be adequately met. It's critical, says TA provider Khary Cisse, to *"educate customers in the management of digital market opportunities and risks…the majority of sub-Saharan women are still almost digitally illiterate"*, a theme repeated by several respondents.

For others, it's a problem **not with principle but with implementation**: *The development of digital channels that can be used in rural sectors or with limited access to the internet… is not yet being fully analysed, nor has the problems related to it been resolved"*, writes Ana Belén Zambrana Peñaranda from a network in South America. For the director of another South American FSP, the problem is "*in my region of influence (Colombian Amazon) there is still a lack of digital channels due to the low population density, but it is urgent to bring these products to that population"*.

So – how to **close the gap between reality and aspiration,** between challenge and opportunity? For some respondents, it's first about usage, and "*digital financial literacy, driven by transparency*", according to an East African provider. *You need to bring the institution closer to the partner"*, argues a South American provider. And "*nothing is more likely to benefit clients than offering them products that are adapted to their needs*", says Amelia Greenberg, from an infrastructure organisation.

Nevertheless, there remains some sense that we're **closer to the beginning than the end** of what will be a long journey. Murium Hadi, a funder, writes that "*this area shall grow and see major growth with focus on open banking, digital banks, connectivity, API integrations and focus on gathering more data points along the value chain to both deepen and widen the impact of any institution's footprint*". A respondent from a European infrastructure organisation observes that "*the fact that SPTF is developing Client Protection Principles in DFS shows that DFS is becoming very relevant and widespread in the sector and deserves attention to make sure we get it right*".

But not everyone is on board. "[This trend is] e*ssential - but not happening for the bottom of the pyramid*", says an independent consultant working in Central America. And discussion is still full of "*too uncritical views, by ignoring the need for face-to-face contacts with low-income and low literate clients, notably women*", according to a European TA provider. Plenty of dissent – and plenty of work to do, then.

"This is still not a major priority except for merely providing digital access"

TA Provider

6. Gender equity within financial service providers

This trend is up significantly in both real and relative terms since 2022, when 'Financial Inclusion that Works for Women' was the topic of the European Microfinance Award, within which gender mainstreaming in financial inclusion organisations was a major component. It's probably reasonable to attribute some of this increase in perceived importance to the influence of the preceding Award within e-MFP's broader network[6] - as well as increased attention given to this topic by many other networks and knowledge platforms.

Unusually among the qualitative responses to the *Compass* trends, there is a real **consensus** here. Almost all comments here focused on the **importance of the topic** and the **dearth of attention** and resources given to it.

Gender equity within FSPs has different components – and respondents variously focused on either the **client-facing element** – providing financial and non-financial services adapted to women clients' particular needs – and the **internal focus** on ensuring fairness, meaningful opportunity, flexibility and security for women staff and management.

On the latter, there is a real sense among respondents that integrating a gender equality perspective at all levels of the organisation has reached a **critical threshold of visibility** that should mandate more focus. Gabriela Erice Garcia from a European infrastructure organisation says that "a*fter Climate Change, I think this is THE 2nd-topic and almost all sector stakeholders seem to be looking into this and developing initiatives (in line with what is happening globally)*". A TA provider in Sub-Saharan Africa bemoans that *"most MFIs have male field force servicing women customers"*, despite gender equity being a driver of *"innovation and fairness"*. A different TA provider there writes that "*we need to promote women in service offers taking into account their very strong impact in changing communities…and their [high] numbers*". And Dereje Legesse Zewdie, a TA provider, says that there is "*no gender equity considered at board, management and senior staff positions in most Ethiopian Financial Institutions*".

Other respondents focus on how FSPs ensure equity for **women clients** – and overwhelmingly they feel this is of critical importance, and there is enormous work to be done to better serve and include women in the financial system, something that is beneficial for any country. It's "*an area which is often neglected, or at best paid lip-service to, [despite] huge opportunity to create a direct impact on GDP*", writes a South Asian funder.

6 For more, see: https://www.e-mfp.eu/sites/default/files/news2022/Financial%20Inclusion%20that%20Works%20for%20Women_Web.pdf

There are big **challenges** here. "*Women in marginalised communities very rarely have the necessary credit history*", according to a European TA provider, noting a barrier that is both an obstacle to, and a rationale for, women's financial inclusion. And while "*some local institutions make it an important axis of development; there are very few*", according to Konan Paterne, from an FSP in West Africa. Indeed, it does seem that there is an 'attention gap' of sorts, with fast-growing attention giving to this among the broader ecosystem, but which is yet to trickle down: *"It seems that all international organisations have put this as a priority already, it is now time to promote more country level actions"*, argues Eric Duflos. And Hans Ramm agrees, saying "*gender equity is getting overall increasing attention by funders*".

But despite acceptance that this topic is becoming clearer and with growing activity around it, some respondents had caveats to add. Margarita Zaldaña said there is inadequate attention given to how men and women run companies differently and that "*these characteristics must be better considered by financial and non-financial services*". And a consultant in Central America said that the high *"outward"* importance of the topic conceals that the "*focus is [just] on staffing/labour equity rather than actual financial inclusion of women".*

"This topic is still lagging despite all the recognition of its fundamental importance"

Respondent from infrastructure organisation

Selected Respondents' Comments from the other Trends

The 20 Trends generate many hundreds of individual comments. The following are some selected comments for each of the remaining Trends:

7. New financing instruments (green finance/social/gender bonds; blended finance)

Good, except that for blended finance, those private equity funds will be doing so with a lot of pressure or conditions that might compromise social objectives or financial inclusion

Europe-based researcher

A lot of talk about this, but not sure how much is already being implemented

Researcher

Most orgs just want to be able to easily access working capital without the need for pitching competitions and relationship management with 'white saviours'

Consultant in SSA

8. Governance

This is a topic relevant transversally to all topics (e.g., Climate change, digital transformation), but in isolation it is not a topic of much discussion

Consultant and support service provider working in LAC

Attention to governance has reduced because most MFIs are now under the purview of regulators. Weaknesses remain. There is overconfidence that the regulators and a bunch of bureaucratic requirements conclusively address governance. They do not. In the context of environmental and social governance (ESG), I hope the topic regains attention

Europe-based TA provider

I would put sustainability rather than governance as being more important

Multilateral donor

9. Social performance management and/or impact measurement

Everyone says it's highly important, but no one is accountable for actual impact

TA provider in LAC

It should be the primary purpose of any financial inclusion, not to measure it in terms of the investor, but in the impact of the final beneficiary

Inter-governmental organisation in LAC

Primarily for funder satisfaction not for business growth

Consultant working in SSA

Too many different concepts/approaches supported by 'un-wise' funders that confuse the FSPs and their investors and funders. Limited understanding in differentiating between outputs, outcomes, and impact notably within the private sector

Europe-based TA provider

10. Financial health

Becoming "trendier" but hardly anyone knows how to measure it and actually improve it

TA provider in LAC

Financial health is very important but is not a direct outcome of financial inclusion but of a combination of multiple factors

Researcher at global think-tank

For financial health, finance must be 'humanised'

Cooperative in LAC

Not all aspects of financial health are under the control of the FSP

US-based supra-national network

11. New financial product development

Most digital players have been focused on piggy-backing off of existing players, products, or delivery channels. There is still a huge opportunity to design product and services for the missing middle of society

Funder in South Asia

It should not be a competition of discovering new names for the sake of inventing novelties. in social financial services, the sustainability and usefulness of special needs should have priority

Europe-based foundation

Some of the segments do not find a lot of value in existing products and would like the financial service providers to focus on developing products that meet their needs

TA provider in SSA

There needs to be some easy access generic yield sharing products to make it easier to access finance. Currently everything is bespoke and not cost effective to manage

Europe-based TA provider working in SSA

12. Financial inclusion regulation

Already regulated. Just [have to] to readapt to the needs

TA provider in SSA

Regulation limits inclusion, it must be appropriate to reality

Financial services provider in LAC

CGAP lost its crucial role as donor knowledge platform (mainly on regulation) due to its diversion towards the execution of digitalisation pilots

Europe-based TA provider

13. Institutional and sector-level resilience

I don't see as many efforts on this as there were during Covid times, maybe because the crisis showed how resilient the sector was?

Europe-based network

Most institutions focus on their sustainability. They might perhaps be more interested in understanding how to maintain sustainability, given the multitude of challenges and disasters

Financial services provider in SSA

The need for climate-proofing products

Europe-based researcher

14. New FSP providers (fintechs, consumer lenders, banks downscaling, etc.)

These are useful as they are leapfrogging some of the barriers to financial inclusion. They're not in community consciousness yet

TA provider working in SSA

[there should be] caution in banks downscaling which might lead to competition, multiple loans taking and hence indebtedness as borrowers might start borrowing from MFI X to repay loans to MFI Y.

Researcher

This represents the main innovation laboratory in the sector, but it does not always have a solid base in inclusion and/or development issues

Europe-based TA provider

None of this is really new. Even digital isn't "new" anymore. Just because there is low penetration, doesn't mean it's new. It can just be useful for smaller numbers of people

Consultant working in LAC, SSA & South Asia

15. Institutional strategy and change management

importance was higher among funders when more classical 'down-scaling', 'up-scaling', 'green-fielding' financial access projects were funded. Nowadays, funders mainly perceive the financial sector as a means to the end in reaching different client outcomes so there is less focus on developing inclusive financial sectors like in the mid 2000s

Europe-based independent consultant

Major issues as many organisations have reached a growth glass ceiling defined by their lack of investment readiness or their own working capital

'Business support' consultant based in Europe

A real challenge for Tier 2 and 3 in particular

Foundation working in SSA, LAC & South Asia

16. Human resources management

More emphasis on this right now as FSPs respond to Covid impacts of high staff turnover, so finding and retaining good talent has become more important

US-based funder

I think it should be more important, as M/FIs need more specialised staff. But modern HR Management Systems are still not high on the agenda, sadly

TA provider working in MENA, SSA & EAP

There is a huge human resource risk at most Ethiopian MFIs. One man dominancy (especially the CEO) and there is no delegation and succession plan

TA provider in East Africa

17. Non-financial services

In particular in terms of agroecological transition and mitigation/adaptation to climate change

NGO working in SSA & LAC

Non-financial interventions guide the proper use and avoid waste. Also we need innovations to support profitability and wealth creation sometimes not included in financing

TA provider in SSA

Often very important but little or no proof of impact

Financial services provider in LAC

Still too little attention given. Only financial education has been accepted as a powerful non-financial service

Europe-based consultant

18. Institutional and market-level information (ratings, credit bureau data, etc.)

Additional operational costs for MFIs without significant benefit at the moment. Priority should be given to national ID

Financial services provider in SSA

It seems to me largely achieved now?

Europe-based infrastructure organisation

Responsibility is required when delivering information to credit bureaus and these must allow information at lower costs for those who feed the data. It is too costly for operators and the information they give us is limited to the value paid

Financial services provider in LAC

19. New financial technologies (AI, cryptocurrencies, blockchain, etc.)

AI is revolutionizing the whole world, and it certainly will the world of financial inclusion

TA provider in LAC

Highly prone to fraud and very dangerous with current low rate of financial literacy

Financial services provider in SSA

Not that we do not think it is not important - but this will rather need some time to trickle down to the institutions we would normally focus at

Europe-based support service provider

20. Agent banking

Non-bank agents? This will become more relevant thanks to new technologies, but there is not enough discussion about it

Europe-based TA provider working in LAC

It is a topic of high importance but wouldn't say it's much of a "trend" anymore

Independent consultant in LAC

Very resilient as a model for excluded areas to make distribution equitable. Especially with post-Covid learning

TA provider in SSA

Agents continue to be the bank tellers of the poor

Researcher at global think-tank

Future Priority Areas

In which of the following areas would you like to see the most significant developments in how the financial inclusion sector serves low-income clients in the next 5-10 years?

> "Like a man rowing a boat, we enter the future facing the past"
>
> Valéry

In contrast with the previous section, Future Priority Areas seeks not only to look to the medium- to longer-term future but is also **more subjective** - asking not just what respondents forecast (i.e., what *they think others think)* but what *they themselves would like to see.* This list continues to evolve, with new areas coming in, and others being removed – and a couple being amended to better reflect realities. As before, respondents were asked to choose their top five Priority Areas from the (randomly ordered) list and rank them from 1st to 5th. The scores were adjusted to reflect the frequency with which they were chosen as well as weighted by ranking to produce an Index score on a 0-100 scale. These scores (as well as the 2022 rankings for comparison) are shown in **Figure 7**.

Figure 7
Future Priority Areas – Overall Rankings

Rank	Future Priority Areas	Index score	2022 rank
1	Green and climate-smart finance	42.4	3
2	Women's empowerment and gender equality	36.0	4
3	Agri-finance	31.7	2
4	SME finance	31.3	1
5	Financial health (including financial and digital literacy)	25.8	7[7]
6	Food security & nutrition	17.2	6
7	Disaster resilience	16.4	9
8	Financial inclusion for the ultra-poor	15.3	5
9	Financial inclusion for youth	15.1	12
10	Water, sanitation and hygiene (WASH)	12.9	10
11	Services for refugees/displaced populations	12.6	14
12	Access to education	11.4	11
13	Housing	11.4	13
14	Health care	10.1	8
15	Renewable/off-grid energy	8.7	16

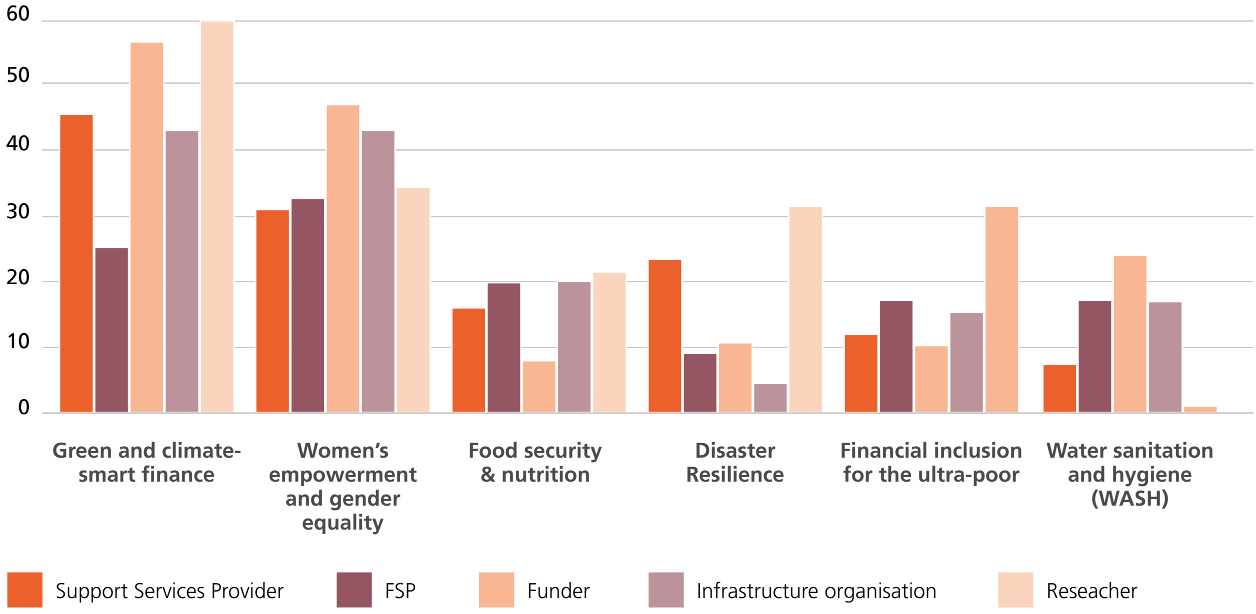
[7] In 2022, called 'Financial literacy (incl. digital literacy)'

The **top four Future Priority Areas** are the same as 2022, although the order has changed. **Green and climate-smart finance** has emerged as a very clear #1 with an Index score of 42.4 – up from 30.6 last year; consistent with the increasing visibility and influence of e-MFP's Green and Inclusive Climate Smart Finance Action Group[1]. But its emerging dominance is entirely consistent with the comments in this and the previous section; it is becoming the most important for many stakeholders in the financial inclusion sector. **Women's empowerment and gender equality** is significantly up in Index score – as well as jumping from 4th to a clear 2nd this year.

Financial health may have dropped a spot, but its Index score has actually significantly increased. Of course, this Index is zero-sum, so as some scores go up, others must go down. **Financial inclusion for the ultra-poor** has dropped in position and also significantly in Index score.

Figure 8
Selected Index Scores by Respondent Category

As always, there are some interesting and significant differences between respondent groups. **Figure 8** shows inter-group differences across six selected priority areas.



- Researchers and Funders are the respondent groups that most strongly want progress in **Green and climate-smart finance**. FSPs are much less interested in this priority area.
- **Women's empowerment and gender equality** is the Future Priority Area with the most consistency between respondent groups – all of which gave it an Index score over 30. It is a high priority for everyone – and especially for funders and infrastructure organisations.
- **Food security & nutrition** is of fairly strong importance to all groups – except funders.
- Researchers are far more interested in progress in both **Disaster resilience** and **Financial inclusion for the ultra-poor** than any other respondent group.

8 https://www.e-mfp.eu/gicsf-ag

Selected Comments on Future Priority Areas

The following are some selected comments from respondents on the Future Priority Areas.

Green and climate-smart finance

This includes the financing of agricultural and forestry chains as well as issues of access to renewable energy and water

Europe-based NGO & funder

Included in this category, at least for us, is renewable and off-grid energy

Europe-based funder, working in LAC, MENA, South Asia

This is cross-sectoral: individuals, MSMEs, agri/smallholders

Europe-based funder

Women's empowerment and gender equality

Given the contexts and clients with whom our sector works, I believe we are in a position where we can really make a difference when it comes to supporting women and promoting gender equality. It is crucial that this is kept at the core of our work (and that things are done properly and avoid gender-washing)

European network

It takes 131 years for women to be able to equalise with men in every aspect of life. The financial sector is one of the most left behind for women.

Gender specialist at NGO

Agri-finance

Essential to cope with rising hunger and food insecurity. This needs to be targeted at smallholder finance and gender-sensitive combined with promoting climate-smart and agro-ecological farming practices

Europe-based TA provider

In terms of smallholder farmer financial inclusion and, to a smaller degree, social enterprises that support those same farmers throughout the agri value chain

Funder

Supporting smallholder farmers is key, in particular in the context of climate change as well as food security in developing countries and also globally. Only 10% of smallholder farmers has access to the financial sector, there is definitely room for improvement

Infrastructure organisation

SME finance

As important contributions to SDGs no. 1 + 8, combining this with youth employment creation

Europe-based TA provider

Healthcare is first priority, then sanitation awareness, then women empowerment, then refuse at last SME Finance

Financial services provider in South Asia

The growing of SMEs in the developing countries post pandemic are needed to support more and understand more in order to achieve social justice of economy

NGO in East Asia Pacific

Financial health

Financial health is not a direct outcome of financial inclusion

US-based researcher

Food security & nutrition

With the impact of climate change this issue is important

TA provider

This should fall under smallholder agri-finance

Support service provider working in SSA

Disaster resilience

With the increasing impact of climate change, this issue is important

NGO specialist

[We need] natural disaster rescheduling policies

Financial services provider in LAC

Financial inclusion for youth

Being one of the most underserved segments in our sector and given how important it is to have economically empowered youth for development objectives, I believe our sector should give more attention to young people and devote efforts to better serve their financial needs

Infrastructure organisation

Water, Sanitation & Hygiene (WASH)

[There needs to be] water footprint measurement & CSR support for waterless communities

CEO of financial services provider

Services for refugees/displaced populations

With more and more populations being displaced and with the gloomy perspectives ahead, I believe there is room, and it would be very relevant, for our sector to increase its efforts to serve the financial needs of these populations and that we could play a very important role supporting displaced people.

Europe-based infrastructure organisation

Complicated

Director of financial services provider in LAC

Especially needed in light of increasing numbers of refugees caused by conflict and environmental degradation

Europe-based consultant

Access to education

Lack of financial education will impact the ability to make healthy financial decisions; this is particularly targeted to developing countries.

NGO working in LAC & South Asia

Improve financial culture

Director of South American FSP

Housing

Providing finance to facilitate access to adequate housing for vulnerable populations would have significant impact in other development objectives our sector pursues such as WASH, health, education, etc.

Specialist at Europe-based network

Adaptation to heat and climate shocks

Advisor to global think-tank

Health care

Oncology Insurance

Financial inclusion adviser in LAC

However, this depends first on the strengthening of qualified health service providers. Without qualified health services, health insurance makes no sense.

Financial inclusion adviser in Europe

For the hardcore poor, health care is the top priority

Board director at South Asian NGO-MFI

Challenges & opportunities

What are the most significant challenges and/or opportunities in the financial inclusion sector today, and what can stakeholders do to address or meet them?

"The merit of all things lies in their difficulty."

Alexandre Dumas

In every *Compass*, we ask about challenges and opportunities ahead – although typically in two separate questions. This time, they've been combined into a single question; they are, after all, two sides of the same coin – one person's challenge is another's opportunity.

Here, respondents provided an unprecedented volume of qualitative responses, which have had to be aggressively condensed here, without space for even every topic. Respondents did speak of opportunities – but (perhaps reflecting growing anxiety and foreboding) much more about challenges. And they did across many topics, but particularly on client segmentation (including vulnerable and excluded populations such as women and displaced persons); access and outreach; new technological platforms and channels; innovations in understanding and serving clients; client protection; macroeconomic trends; regulation and supervision; and climate change. Finally, there were several contributions on the purpose or mission of financial inclusion – the challenge of (re)finding its purpose.

Several respondents focused on enduring failures to reach the most **excluded populations.** *"There is a lack of data and decision-making information regarding financial service accessibility at the last mile, and their suitability for rural population"*, writes a funder. "*What are the main underserved areas, what are the financial services that are delivered in comparison to what is needed?"* Rolando Villaneuva from an FSP in Latin America notes that there remains lack of access to financial services "*especially in rural areas and mainly [of] women…. Financial intermediation is a future challenge…we must expand networks in rural areas…we have to improve internet service to improve digital finance"*.

Others focused on the relationship between **digital finance and outreach to excluded groups.** Deborah Drake, a consultant, notes that digital finance "*is an opportunity and a challenge as many more men and women will be able to access financial products and services…but there will still be many left out, especially women, who don't have their own smartphones or the financial means to purchase mobile data"*.

Tiurma Veronica, a gender specialist at an NGO, writes about the disconnect between product development and context or needs. "*There are many financial policies developed that are [separate from] gender and social cultural norms, that limit women's participation in the financial sector. One of the key factors…is the lack of formal identification documents, [usually] required before an individual can open a bank account"*.

And Ana Belén Zambrana Peñaranda, from an infrastructure organisation in South America, points to supervisors' responsibility for "*gender gaps for access to credit and other financial products, where many times these gaps are deepened by the current regulations of the countries, which require women to have joint access to services."*

"Gender mainstreaming in policy, product development and investment"

Respondent at global infrastructure organisation

And the challenge of deepening outreach goes beyond just rural populations and women, and includes, among other segments, "***displaced populations****…these populations will continue increasing over the coming years…engaging with regulators and humanitarian organisations will be critical to make sure we serve these populations the best way possible*", according to a respondent from a European network.

As always, **technology** is a twin challenge and opportunity for many, many respondents. But what comprises technology? Respondents' focus is shifting, from digital transformation of MFIs, or the threat posed by fintechs, to making client facing apps and wallets valuable, to emerging platforms and processes. A funder writes of "*new technologies like Blockchain/tokenization; AI will have a profound effect on the way FSPs operate, and how people/MSMEs will consume those financial services*". A researcher says that *"AI, blockchain, etc., have the potential to streamline processes in the short term, and completely transform the sector in the longer term. New players, notably fintechs, are reaching maturity and are being taken more seriously by traditional institutional actors".*

"Fintech innovations can either be beneficial (i.e., an opportunity) or detrimental (i.e., a challenge) to incumbent FSPs, depending on whether the latter are willing to explore and test such innovations…moreover, these innovations go beyond digital money and mobile banking, encompassing technologies such as artificial intelligence, blockchain, and big data analytics"

Researcher

Are these traditional actors being pushed marginalised? A funder writes that "*banking the unbanked (1 or 2 billion?) doesn't necessarily have to go through financial services providers; embedded finance can play a big role here. Financial services will increasingly be commoditized and available through multiple channels".*

The issues surrounding new technologies are varied and complex. A researcher says, *"there are many important issues around the price of services, the use of data, user protection and competition between service providers"*. And Joel Patenaude, a consultant, writes that there is now a "*focus on unit economics, and less room for nice-to-haves. The costs associated with USSD are causing a rethink of support for feature phones in some markets, and a move toward smartphone and OTC services".*

Expanding to other technological applications, how can financial inclusion stakeholders leverage advances in **data collection and scoring** to better understand and serve clients? Nancy Goyburu Reeves from an FSP in South America asks what progress there is here, and what implications it has for the FSP-client relationship: *"Progress has been made in the use of scorings for recruitment and promotion or pre-qualification, but there is still no evidence that there is a scoring that [sufficiently captures] the Total Customer Evaluation, whose information continues to be informal"*, and "*the intervention of the Credit Analyst is still necessary, except in online loans for recurring or new loans*", she writes, and asks whether "*except in online loans for recurring or new loans . . . is it ideal for the Credit Analyst or Officer to be eliminated from the process of relationship with the excluded client, when that has been the critical success factor of microfinance? What should the balance be?"*

"Not all MFIs implement their value propositions according to what clients need. Financial inclusion should not be vertical - but should start from the needs and dreams of customers"

FSP in South America

Finding this balance is of course central to the enduring challenge of **client protection**, which as in every *Compass*, focuses many respondents' attention. There's a sense among some that there is a race underway to 'keep up' with the accelerated pace of (largely technology-driven) change. Amelia Greenberg, from a SPM-focused infrastructure organisation, observes that "*access to technology is happening at a faster pace than the pace of building the knowledge of among customers of how to use digital financial services safely, or the pace of building the new infrastructure we need to make sure digital financial services can be used safely, for example to prevent cybersecurity attacks".*

What's the answer here? Greenberg says that we need "*a combination of voluntary engagement by FSPs on CP practices; regulation that makes CP mandatory; funding to give supervisory authorities the resources they need for enforcement of regulation; funding for FSPs to invest in social and environmental performance management; and dissemination of lessons learned by practitioners so that everyone can benefit and implement best practice".*

The 2022 *Compass* saw a drastic increase in attention by respondents to the worsening **macroeconomic climate**, with its particular and regressive impact on poor and vulnerable groups. The same is true again in 2023 – but perhaps more so. Several respondents discuss the worsening food crisis, caused by global inflationary trends – themselves largely a delayed consequence of the pandemic – and exacerbated by the war in Ukraine. *Global economic and political instability"* is a huge challenge, writes a researcher focused on Sub-Saharan Africa. Vijay Gurung from an FSP in South Asia cites *"the rising cost of commodities, slowdown of economic activities and high inflation".*

Of course, it is the role of **regulators** to both mitigate challenges like this, and also to ensure that opportunities can be grasped by providers. Several respondents discussed regulatory trends, and most see them as a challenge in themselves. "*Growth and changes have not been accompanied by effective changes in regulation and supervision"*, writes Davide Castellani, a researcher, adding that "*while in some countries regulators and supervisory authorities have been reluctant to open the doors to innovations, in others, they have been very proactive but unable to establish proper client protection instruments and policies".* A different researcher bemoans "*heterogeneous and sometimes contradictory regulatory frameworks within and across sectors/markets".* And the director of an FSP in Southeast Europe *writes that "first national supervisory authorities should create dedicated base for the sector that focuses only on increasing financial inclusion"*.

"Regulatory regimes boxed in by mutually incompatible nation-state jurisdictions, which hampers development of cross-border financial services that work for people on the move, working or trading across borders"

Consultant in South Africa

Climate change permeates the entire *Compass* survey this year – from the Trends and Future Priority Areas to all the open-ended questions. While respondents do see opportunities here, the main focus is on the complexity of the challenge faced, and how fast it is moving. A researcher says that the "*accelerating effects of climate change are impacting communities faster than FI actors can resolve/mitigate them".* A respondent from an infrastructure organisation says climate change *"will put many achievements at risk, contribute to migration, increase tensions and threaten livelihoods of broad segments of the population, especially women…budget pressure and the political environment in donor countries might shift focus to projects that can demonstrate short term results, but make it difficult for funders to support systemic change".* And Janet Kuteli from an FSP in East Africa says solutions lie partly in prevention of harm through new technologies: "[We need] *innovation in handling climate change challenges in terms of product offering, assessment and evaluation of the impact; using blockchain and Oracle to determine climate changes in arid and semi-arid [regions] can reduce the cost and time of offering humanitarian aid or insurance before drought affects livestock and pastoralists".*

"Especially for Agri MSMEs, we are now seeing how weather patterns are affecting harvests thereby compromising the ability of farmers to pay on time. To address this, we need funds that are dedicated to climate-based solutions. At present, we see existing funds are only for big tickets ranging from 2-3 million which means the smaller more vulnerable ones who are most in need of financing are left behind"

Europe-based FSP

Finally, several respondents spoke not about a specific trend or challenge, but generally – even rhetorically – about the challenge of (re)finding and maintaining focus on **financial inclusion's mission or purpose,** particular now the *acute* effects of the pandemic crisis have largely passed. What, they ask, are we actually trying to do?

Whatever it is, it's not about promoting access to financial services, which was "*necessary in the past*", writes Axel de Ville, from a European funder and TA provider. "*Today, we must go further and no longer consider financial inclusion as an objective in itself but as one of the means to fight poverty and reduce inequalities. It is necessary to stop basing financing or investment decisions on the criteria of risk perception and short-term profit".* He adds that the sector should focus on "*financing climate-resilient agriculture, forests, young entrepreneurs, economic activities in developing countries, etc. It is possible, but for this to happen, we need innovative, flexible, long-term financing, at an affordable cost based on the real risk and not on the perceived risk."*

"The tricky challenge for the sector today is to stop seeing itself as a sector rather than a cross-cutting transversal issue that can facilitate other priorities. FSPs need to have more and deeper partnerships, clearer development strategies. i.e. financially including alone is not a development strategy if studies show that it doesn't improve livelihoods"

TA provider

Jurgen Hammer, from an SPM-focused infrastructure organisation, is critical of the sector's **lack of coordination** on shared challenges, and the prevalence of lip-service over real impact. "*We promise positive change and impacts, but we are not yet able to demonstrate this. The big challenge: we won't be able to do this in the traditional egoistic and institution-centred approach. There is continued inefficiency and lack of REAL cooperation between actors in our industry. We need data to prove our impacts – we have data but don't find the right way to share them. We need real complementarity, but we continue to overlap and work on our own visibility rather than on the additional value we provide*".

Perhaps one problem is that we have to go back to first principles – what does **financial inclusion mean?** Is formalisation of finance and offering graduation to the mainstream sector the only realistic goal and path? Hugh Allen, a consultant, observes that inclusion is "*seen only through the lens of linkages to the formal financial sector, while in fact informal finance is much more widely valued….inclusion means accessing the services you need, depending on your personal circumstances and, as your needs become more ambitious, to offer different forms of savings and debt finance products that allow for longer term low interest credit and physical security for excess liquidity…the ability of the informal sector to offer a self-managed route towards meeting these needs, has not been explored by a sector that, as time goes on, seems to resemble the forms of institutional practice that microfinance was intended to replace*".

> "Financial inclusion can no longer be defined by payments, mobile money and short-term transactions. The financial sector must become a force for building an inclusive circular economy and engaging lower income communities in the battle for the planet. If we are not working toward that, we are wasting our time"

Consultant and support service provider

Enduring changes from the pandemic

What changes in the sector that were caused or catalysed by the Covid-19 pandemic have endured?

"Nothing is so painful to the human mind as a great and sudden change."

Mary Wollstonecraft Shelley

In 2020, we tore up plans for the usual *Financial Inclusion Compass* and instead produced – on short notice and in record time – a *Special Edition Covid-19 Compass*, published in July 2020. It's interesting and revealing to re-read what was written in those early months of the pandemic.

"How will the financial inclusion sector be different after the Covid crisis has passed?" was the final question put to respondents, who made several forecasts for the legacy of the pandemic. They included the **digital transformation** of FSPs; a **refocusing of the sector** on new segments; increased and enduring **collaboration**; **consolidation** of "*fewer but more resilient institutions…not a large number of moribund, zombie institutions being supported by donors or governments*" – and applying not just to financial providers, either, but infrastructure organisations as well; and changes in **financing** of the sector "*leading to FSPs being leaner in their staffing, and funders and internal financial policies being more conservative…this crisis may force some FSPs to accelerate not only their digitalisation but also their professionalisation*".

Over three years later, what's the verdict? The pandemic has receded from recent memory, but is its legacy yet clear? Responses this time round broadly align with the forecasts above, at least thematically. The pandemic was not a 'death knell' for financial inclusion (as was conceivable, back in mid-2020), but it led to significant and enduring retrenchments – and forced some changes too that are more welcome.

There is, according to some respondents, a half-hidden **overindebtedness** crisis with which institutions are still struggling. "*When Covid-19 brought on an economic downturn, what came forward is that in certain markets clients had multiple loans and this caused a sort of ripple effect. This inability to repay has since [been exacerbated by] the overall economic scenario, [with clients having] a heavy debt burden due to multiple borrowing*", writes an Impact Manager at an FSP in Western Europe. "*Portfolios are increasingly affected*", writes Roberto Coutiño Albores, from an FSP in Central America, "*due to economic conditions*".

This is a repeated theme – that it is no longer lockdowns or repayment moratoria which are the pressures on organisations, but the economic echoes of the pandemic, seen in the macroeconomic – and particularly inflationary – consequences of the pandemic – and exacerbated by the war in Ukraine.

There is concern about the **regressive effects** of these 'echoes' on income gaps and on the **lives and livelihoods of the most vulnerable segments**. Davide Castellani, a researcher, writes that "*while, on one hand, the Covid-19 pandemic has accelerated certain positive changes, such as the adoption of digital financial services, on the other hand, it has caused setbacks, resulting in the loss of progress that had previously been made. Lockdown policies and disruptions in value chains have had a particularly adverse impact on the most vulnerable segments of the population, including women, the uneducated, and the self-employed. I believe that the pandemic has widened the financial inclusion gap between these vulnerable sectors and the rest of the population, and this gap has continued to grow since then*".

"The pandemic's legacy? A sharp rise in the cost of living"

FSP in West Africa

Some respondents talk about the **government/regulatory responses** to the pandemic – another pandemic element with 'echoes' still being heard today. Vijay Kumar Gurung from an FSP in South Asia notes that "*to overcome the economic slowdown caused by the pandemic, government and regulators had come up with various flexible policies and loosen up fiscal and monetary tools. The strategy helped the economy to overcome short-term volatility but in the long term, it has had a negative impact"*. Not all regulation is unwelcome, though; indeed, a TA provider in Sub-Saharan African says that the pandemic *"highlighted the need for financial institutions to ensure business continuity…leading to an ongoing regulatory focus on operational resilience"*.

Another legacy of the pandemic is **behavioural change** – including that of clients. An investment manager at a European funder and support provider observes "*changes in the pattern of consumption, slightly more focused on priority needs and with a longer-term horizon"*. Cito Mongane Espoir, from an FSP in Sub-Saharan Africa points to an enduring "*reluctance to consume financial services*". Does this point to an increasing risk-aversion – or an increased understanding of the importance of resilience? A respondent from an FSP in West Africa cites *"increased awareness of the importance of savings and financial resilience"*. However, Hugh Allen, an expert on savings groups says otherwise: "*in the savings groups sector, [we see] reduced savings, greater dependence on loans and the beginnings of default"*. And a respondent from an FSP in East Africa is clear: there has been a "*disintegration of VSLA groups"*.

Behaviour has changed elsewhere in the sector too. A major legacy, according to Barbara Magnoni, President of EA Consultants, is *"an understanding that covariate risks (pandemics, climate, etc.) can impact a portfolio and subsequently affect provisioning and de-risking efforts"*. Risk aversion seems commonplace: A TA provider in Southern Africa says the big pandemic legacy is *"caution - both on the demand and supply sides"*.

There are other changes that have stuck, too, including on the **human resources** side: *"Hybrid work as an answer to continue with the benefits that remote work brought. Hybrid working arrangements benefiting workers have increased, although there have been excesses in worker controls in some MFIs"*, writes Nancy Goyburo Reeves from an FSP in South America, who says the pandemic has "*demonstrated that you can train and educate financially virtually, reducing costs…and that meetings and events can be held virtually and with similar efficiency and quality as when they were face-to-face, since the administrative costs of travel expenses, tickets, exhibitors, etc. have decreased significantly"*.

"We travel again, and more than before, we meet in person and more than before, we consume more than before, we think of ourselves more than before"

Respondent from Europe-based infrastructure organisation

It will come as little surprise to long-standing *Compass* readers that the large majority of responses to this question centre around a central theme – the **digitalisation** of services – and institutions themselves. There is virtual unanimity that the forecasts from 2020 on this topic were well-founded. It hasn't always gone in one direction - and it has not always been positive. A Europe-based funder writes that "*most institutions digitised part of their processes and/or invested in medium/long-term digital projects (digital assessment tools, digital channels, digital products, etc.), although in the last year there was a setback in the digitization process (due to the importance of face-to-face presence in the relationship with the microcredit client)"*. George-Odum Augusta from an FSP in West Africa says that *"there was increased* *adoption of alternative channels (mobile banking, USSD, POS, ATM transactions) and agency payment services"*, adding to this *"a reduction in footfalls across bank branches…increased fintech participation in digital lending, and proliferation of loan sharks".*

As in previous years and in previous sections, several respondents express **concerns about the consequences** of untrammelled digital transformation. A researcher in MENA cautions against the decreasing role of physical agents as intermediaries with end-clients, and the increasing *"'digital divide' between populations with regular access to mobile/internet and those without it".* A researcher in Western Europe expresses the worries of many, outlining the importance of "*maintaining human relations (the human touch) between the producers of these services and their customers."* Elias Abebe, from an East African FSP says that the digital finance that the pandemic catalysed "*is not well thought out or developed*".

"Digitalization has been an important change…strongly accelerated by the COVID-19 pandemic and this is an impulse that should not be left aside. It is important to continue and deepen this path"

Respondent from infrastructure organisation in LAC

But there is much about which respondents are **positive.** The director of an infrastructure organisation in Central America is grateful for "*the advances in digital transformation, implementation of digital customer service channels, and financial education".* Alejandro Vazquez Ortega from a European funder points to the pandemic's influence on "*development of new products…and [increased] importance of the use of technology and technology literacy".* There has been the *"mass adoption and popularisation of new technologies"*, according to an investment manager in Europe, and a different funder is positive about the value of "*remote communication*" that the pandemic has brought about.

There's more. A consultant working in South Asia and SSA says that *policymakers [now] see the importance of digital payment infrastructure…there are [also] more connections between financial services, payments, and social transfers".* There have been huge advances, according to Frederic Ponsot, a funder, on "*electronic on-boarding processes".* And Anup Singh, a consultant working in East Africa, cites several technology-related advances, from the "*massive shift towards online banking, which has sustained as customers have adapted to this convenience"* to "*a surge in fintech adoption, including digital payments and mobile wallets, a trend that continues post-pandemic"* to huge increases in *"contactless payments"* and, with the increase in digital transactions, *a higher priority given to cybersecurity"*.

In mid-2020, we concluded the *Covid-19 Compass* as follows:

> "It's clear that there is real concern that this crisis may be the death-knell for the sector, undoing decades of progress. For others, there are glimmers of hope – that once the acute crisis brought about by economic shutdowns passes, there are chances to make changes that the gravitational pull of the status quo would never allow in more 'normal' times".

Three and a half years later, the picture that has emerged is opaque and uneven - at best. It's clear that while the 'death knell' was averted, there are still long-term adverse consequences, as well as welcome innovations and advances underway. Watch this space in 2026 for more?

"Isn't it time to move on...?"

Consultant and support service provider

Future avenues of research

In what areas (or on what specific questions) would you like to see more financial inclusion research?

"An expert is one who knows more and more about less and less until he knows absolutely everything about nothing."

Nicholas Butler

Financial inclusion research always seems to be of low importance to *Compass* respondents (with the notable and predictable exception of researchers themselves), coming 18th out of 20 in 2022, 19th in 2021, and dead last in 2021. Stubbornly, this year we decided to disregard this and instead devoted an entire open-ended question to the topic. We were vindicated in this, with respondents providing thousands of words on what potential avenues of research they would like to see pursued.

A lot of respondents focused on different target segments, and how the sector can better understand and meet their specific needs. These range widely: "*Financing small-sized enterprises/MSMEs remains a challenge for banks and microfinance institutions. How can new technologies be leveraged to develop suitable financial services for small-sized enterprises?*", writes a researcher. Several focused on the **most vulnerable groups**: "*let us focus on the "S" of ESG. How investors can influence investee behaviour on social risks such as human rights, working conditions, forced labour and child labour?*", writes Deborah Drake, a US-based consultant. "*In terms of outreach to most remote areas*", says Elias Abebe from an FSP in East Africa, there should be more research into providing "*interest free banking services and insurance products…and gender inclusion in rural communities*". And the conclusions of the research conducted needs to be accessible and understandable by all stakeholders.

"There needs to be improvement in credit and savings products in the segment of clients working in family farming (<10 hectares), with limited capacities to education and with demonstrated indicators of poverty and extreme poverty…and (better) credit products for those living in extreme poverty or who regularly move out and then fall back into it"

FSP in LAC

Improving access to financial services among the most rural communities is a recurring theme. Ana Belén Zambrana Peñaranda from a South American network calls for research into "*[more] efficient mechanisms to guarantee access to digital services in rural areas and sectors that do not have access to the internet or digital tools such as computers and/or smartphones*". Anup Singh points to lack of understanding about "*barriers to access… while we know that a significant percentage of the global population remains unbanked or underbanked, a deeper understanding of the specific barriers these individuals face could help create more targeted solutions*". Other vulnerable and disenfranchised groups are mentioned by many respondents, including "*minorities*", "*disabilities*", "*refugees*", "*ex-prisoners*", "*youths*" - among others.

Nancy Goyburo Reeves, from a South American FSP, wants more research on **non-financial services** **"***What is the best by type of population in terms of content and methodology?"*, she asks. Many others want more research into the design and delivery of **financial education**, including for "youths and older adults" (writes Javier Flores) and "*basic financial education for clients who do not have schooling"* according to Roberto Coutiño Albores, from an FSP in Central America.

"Outcomes and impact, so that we can build evidence on our sector contribution to the SDGs, improve the effectiveness of our services and differentiate ourselves from others who claim impact without providing relevant evidence"

Infrastructure organisation

Other respondents want more attention given to **behavioural research** to better understand clients' household and business decision-making and therefore the value or harm of financial inclusion interventions. Barbara Magnoni asks: "*How are clients actually using loans and to what extent can this impact product development? What are the dynamics of intra-household negotiations on loan use and payments? Are micro-businesses run by 20–40-year-olds different from those of their predecessors in their business models, efficiency, use of technology?"*

"Need research on the totally new and disruptive models to share data on clients and their well-being. It is a scandal to see how much taxpayer money is spent to collect data, only to showcase "our" own performance. No comparability, no transparency, highly complex methodologies that no-one analyses!"

Infrastructure organisation

Various other topics get clear but limited mention in the responses. Axel de Ville calls for research into "*issues of* ***currency risk management*** *and international interest rate fluctuations, which strongly impact the availability of investments in favour of financial inclusion"*. **Regulation** is mentioned by some respondents too, including "*cross-border financial regulations - we need to be able to serve people on the move better - the nation-state-confined regulatory jurisdictions are hampering these developments"*, according to a consultant in South Africa, and the need to "*make regulations more adaptive and responsive to emerging challenges and consumer risks, e.g. linked to shocks, but also technological change such as artificial intelligence?"*, according to a consultant in France.

Indeed, **artificial intelligence** is the most notable new entrant here, and there is a widespread sense that the sector needs immediate focus on its application and risks. This includes the "*implications of AI on privacy and data sovereignty for emerging markets and marginalised populations (e.g. algorithm bias in scoring, data protection for marginalised populations)"*, according to a consultant in MENA, and *"the use and effects of AI in providing resilience to vulnerable populations"*, according to Janet Kuteli from an FSP in East Africa.

"How is blockchain creating new solutions in the capital markets infrastructure, i.e. tokenization of assets, to generate more liquidity options for (small) financial services providers struggling to tap into the capital markets?"

Europe-based funder

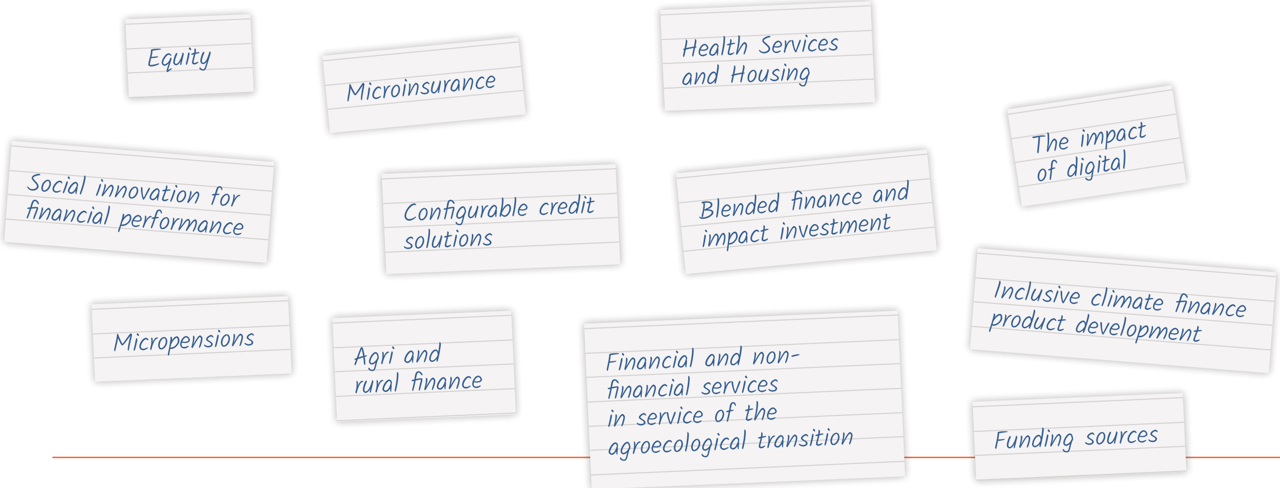
However, overwhelmingly the most responses to this question were on **green and climate-smart finance.**

This has several components. It includes **"***climate mitigation and adaptation for the poor and very poor"*, according to Alejandro Vazquez Ortega. It includes *"the types of financial products adapted to climate-smart economic activities (agriculture or other "green" sectors)*", according to a consultant and support service provider in Europe. And, according to an investment manager at a funder, we have to address the **gap between theory and practice**, between the desirable and the practical: "*This requires more research with a practical focus on "green" solutions…stakeholders want to be part of the ecological transition, but there are no adequate financial products/services (credit savings), nor sufficient incentives (for the private investor, nor for the PSF, nor for their clients) to unlock the trillions available for green financial inclusion".*

Moreover, respondents want more attention and resources devoted to **other areas of green/climate research**. A funder asks, "*how do remittances and more broadly financial inclusion contribute to climate adaptation strategies?"*. Vijay Gurung from an FSP in South Asia asks for more research *"in the field of climate-smart agriculture and MSMEs"*. A respondent from an FSP in East Africa wants to see more research into the actual "*adoption of solar/renewable **energy** services…is Productive Use of Energy scalable?"* And Chiara Pescatori, a funder, says we need "*more awareness on potential harm created by certain activities financed by the inclusive finance sector (e.g. charcoal, but also farming) that could be dangerous for the environment and its biodiversity".*

"(We need research into) innovative models for financing community-level projects (e.g. blended finance for decentralised infrastructure) …and more resilient and decentralised modes of financing capable of surviving shocks to existing institutional infrastructure"

Researcher in MENA



Postscript: The 'Green *Compass*'

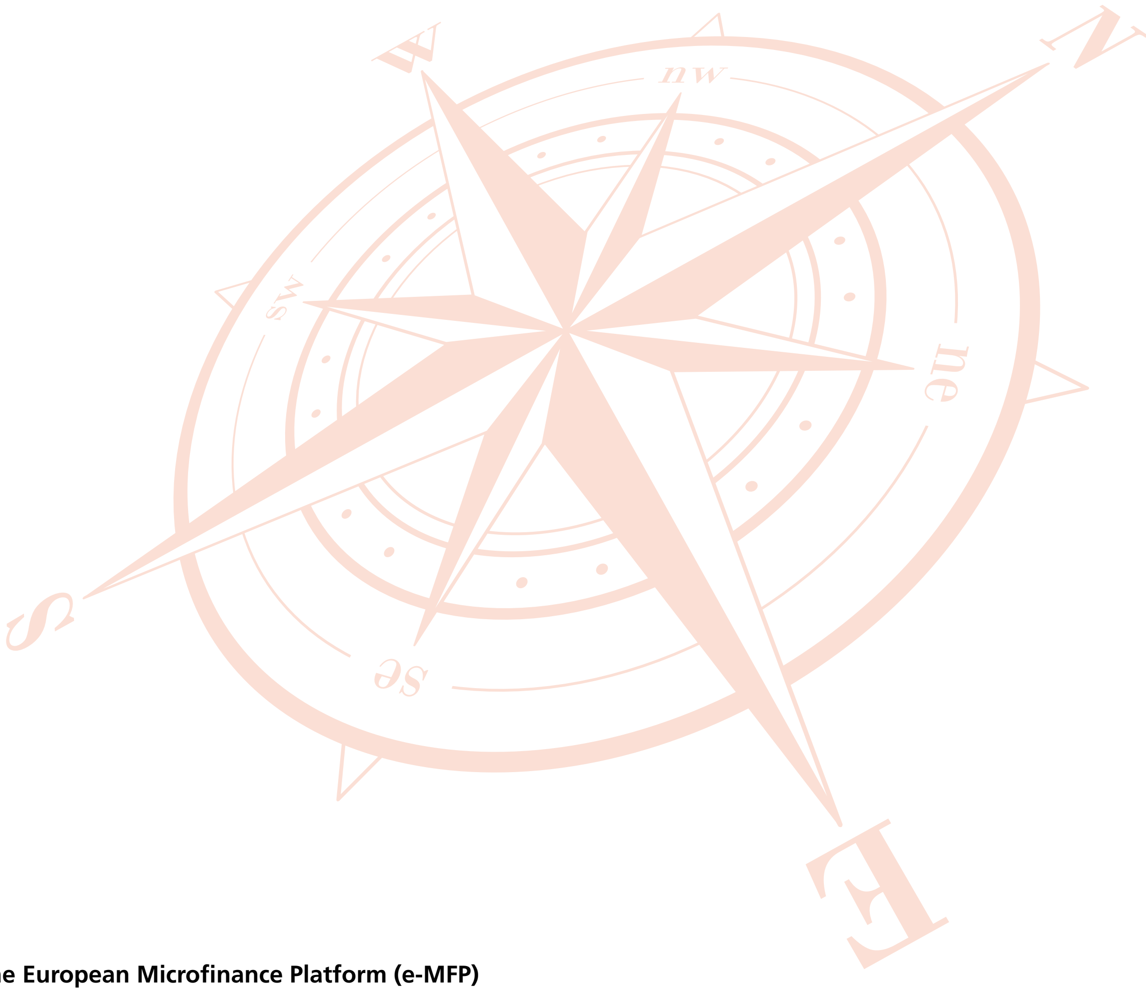
The dominance of green and climate subjects in these final sections speaks to an emerging message of this *Financial Inclusion Compass 2023*. More than in any of the previous editions of this series, there is a *de facto* theme for the publication that the survey produces. **Green and climate-smart finance** has steadily grown in importance to *Compass respondents*, paralleling a trend among e-MFP's members and across all of e-MFP's other research streams and bodies.

Climate change adaptation and mitigation is second in the trends. **Green and climate-smart finance** is clear top among the future priority areas. But the rankings don't tell the full story; the qualitative responses do that. And they say that green and climate-smart finance (touching as it does on everything from client protection to agri-finance, product development, financing innovations, risk management and household resilience) is emerging as *the* defining topic of the present.

It's worth noting, though, that this perceived importance is not ubiquitous; **Climate change adaptation and mitigation** is ranked very low in importance by FSPs - and would have been the clear top overall trend had FSPs rated it in line with the others. It's impossible to say for sure if this reflects ambivalence among this respondent group - or if it just shows how much awareness-raising and support (including via initiatives such as e-MFP's GICFS-AG's Green Map[9]) still needs to be given to FSPs from funders, researchers, TA providers and others.

Whatever the explanation for this, this topic is surely still the *sine qua non* of the inclusive finance sector – and deserves this mention here. But it's one thing to recognise the importance; quite another to overcome the powerful and creeping forces of risk aversion and short-termism and make the bold decisions (and investments) needed to meet the challenges ahead. It will be revealing to see, some years from now, if the sector has been able to grasp the opportunities in the way that *Compass* respondents claim is so necessary – or if the 'urgent' has supplanted the 'important', and inertia has triumphed over action. Let's see.

9 https://e-mfp-green-map.hedera.online/



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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