The *Financial Inclusion Compass* 2021

The e-MFP Survey of Financial Inclusion Trends

By Sam Mendelson

EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

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Foreword

At the time of writing in June 2021, the world remains in the clutches of Covid-19. And while in developed countries there is perhaps light at the end of the tunnel, it's easy to forget that in most of the low and middle-income world, where the financial inclusion sector provides critical services to vulnerable clients, households and businesses, the crisis is far from over. There is widespread uncertainty as to how to navigate a path beyond the challenges of the past year to a prosperous and positive future. Seeing where this path leads is where the *Financial Inclusion Compass* series is so valuable.

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 could not have foreseen how, by the *Compass'* fourth edition, those challenges have so radically expanded.

Last year, we produced a special edition *Covid-19 Compass*, and while it would be impossible to ignore questions on the impact of Covid on the sector, we know too that we must not focus on the urgent at the expense of the important. We must continue to look to the horizon. So, this *Financial Inclusion Compass 2021* does exactly that, and it is a remarkable publication, made possible only because so many respondents take the time to participate – and to provide such extensive and rich insights in doing so. I would like to thank them all.

And I would also like to thank the e-MFP team – Camille Dassy, Gabriela Erice, Daniel Rozas, Joana Silva Afonso and Niamh Watters – who supported the project lead Sam Mendelson in the complex and difficult task of pulling many tens of thousands of words of respondent contributions into the paper you have here.

We hope you find this paper interesting and valuable.

Christoph Pausch
Executive Secretary
European Microfinance Platform

Introduction

"Life can only be understood backwards; but it must be lived forwards."

Kierkegaard

A tourist is walking down a deserted beach at sunset when he sees a local man in the distance. He's leaning down, picking things up and throwing them out into the water – over and over again. As he gets closer, he sees that what the local man is throwing are starfish that have washed up on the beach. He asks him what he's doing.

"I'm throwing these starfish back into the ocean. It's low tide right now and all these starfish have been washed up onto the shore. If I don't throw them back, they'll die from lack of oxygen."

"I understand," the tourist replies, "but there must be millions of starfish along this beach. You can't possibly get to all of them. And it's surely happening on dozens of beaches all up and down this coast. Can't you see that you can't possibly make a difference?"

The local man smiles, bends down and picks up yet another starfish and as he throws it back into the sea, he replies, "Made a difference to that one!"

I've always loved that little parable. It's easy to feel helpless and overwhelmed in the face of a seemingly Sisyphean task. But scaled up several orders of magnitude is the helplessness people the world over must be feeling right now, daunted at the immensity of not only trying to get control of the pandemic but, even when that is done, to rebuild from the destruction it has wrought – from personal grief to the bankruptcy of small businesses; from the destitution of families and lost education of young people to the macroeconomic turmoil from which it will take years to recover.

Within our sector, while there's been remarkable collaboration this past year to understand the costs, to protect institutions, to ensure that decades of good work aren't undone, the fact remains: There are millions of people suffering. You can't possibly get to all of them. And it's surely happening in dozens of countries all around the world. "*Can't you see that you can't possibly make a difference?*"

Writing the *Compass* is a real privilege – a unique vantage point to read the detailed thoughts, fears, hopes and forecasts of a strong cross-section of experts in this sector, and to try to put them in a format that gives some small sense of direction – of where the sector is, how to approach the enormous challenges of today, and which way to go in order to build back better. How to make a difference.

Thank you to all the respondents who took the time to write many tens of thousands of words that contribute to a paper that can only ever include a fraction of them. And on behalf of my e-MFP colleagues, we hope that in some way the ideas within it help providers, policy-makers, TA providers, researchers, investors and all the other people who are involved in financial inclusion to also be able to say: "*Made a difference to that one.*"

Sam Mendelson
Financial Inclusion Specialist
European Microfinance Platform
June 2021

Executive Summary

Covid-19 has upended the financial inclusion sector, presenting immense new challenges to low-income clients, their households and businesses, providers, funders, and the broader sector ecosystem. So it's never been more important to 'take the pulse' of the sector and ask a broad cross-section of stakeholders in which direction they see these increasingly complex issues trending, and what they'd like to see in the future.

The *Financial Inclusion Compass 2021* is the fourth *Compass* and, after the one-off *Covid-19 Compass* last year, reverts this time to the previous structure, although with questions added on the impact of Covid-19 on the sector, the challenges and role changes it has brought about, and how to 'build back better'. The survey had two main sections: in Section 1, respondents rated from 1-10 the *current* importance of a list of 20 Trends and evaluated a list of 16 future 'New Areas of Focus' to rank their highest five in terms of *future* significance. Optional comments on each were possible. Section 2 had three optional and open-ended questions.

The survey was open for three weeks during May 2021 and received 125 complete responses from 39 countries. A plurality of respondents were financial service providers (FSPs), followed by consultants/support service providers, infrastructure organisations, funders, and researchers. On the *main* geographic focus of respondents' work, a plurality selected 'global'; followed by Sub-Saharan Africa, Asia, and Latin and Central America.

Trends

The Top Five Most Important Current Trends in Financial Inclusion – All Respondents

1. **Strengthening of client resilience**
2. **Increase in women's empowerment and gender equality**
3. **Expansion of digital innovations (client-side)**
4. **Maintaining or deepening outreach to the very poor**
5. **Expansion of digital transformation (institutional-side)**

Strengthening of client resilience and **Increase in women's empowerment and gender equality** are new entries in the list this year, and their high positions overall (and the extensive comments) reflect how much the pandemic has changed stakeholders' priorities. However, there are clear differences between respondent groups: FSPs rank **Strengthening of client resilience** only in 12th – perhaps reassured by the actual resilience of the clients they see so closely. They are very positive about the importance of **Expansion of digital innovations (client-side)**, reflecting the catalysing effect lockdowns have had on roll-out of digital finance services.

Elsewhere, consultants believe **Promotion of good governance** is much more important than do other respondent groups. Researchers rank **Maintaining or deepening outreach to the very poor** a lowly 15th – versus 4th overall. And both funders and infrastructure organisations rate **Increase in women's empowerment and gender equality** considerably lower, in 7th place, than respondents overall.

New Areas of Focus

The Top Five Future Areas of Focus – All Respondents

1. **Small and medium enterprise (SME) finance**
2. **Climate change adaptation/ mitigation**
3. **Agri-finance**
4. **Financial literacy (incl. digital literacy)**
5. **Green finance**

The top three New Areas of Focus are the same as in both 2018 and 2019, the last times this section was included, but their order continues to alternate. There are increases in the rankings for **Green finance** and decreases for **Housing** and **Energy**. **Financial literacy (incl. digital literacy)**, a new entrant, is in a high position in 4th, but the overall rankings are broadly consistent with those of previous years. FSPs are extremely positive on the future significance of **SME finance**, but Consultants and infrastructure organisations much less so. By contrast, FSPs rate **Climate change adaptation/mitigation** much less important in the future than other respondent groups, especially consultants and funders. Finally, **Services for youth** are of strong interest to FSPs – but of no interest to researchers, none of whom gave this a single score.

Notably, there is less consensus **than last time**, with many more Areas of Focus bunched closely together. With support from the distribution and tone of the comments, this possibly reflects **increasing complexity, uncertainty and change** within the financial inclusion sector, with more areas of focus for stakeholders to devote resources to, and which are increasingly inter-related.

In the qualitative response section, respondents submitted many thousands of words of comments for each of the last three questions, and their contributions are organised into several themes within each part.

What are the most significant challenges facing the financial inclusion sector today, and what will stakeholders need to do to meet them?

One challenge looms above all others, but comprises many parts. Covid-19 has had implications on clients' cash flows and financial needs, institutional liquidity, regulation, sector resilience and reputation, human resources – the list is long. Most respondents' comments were related one way or another to the challenges brought about by the pandemic, but some are crisis-specific; others are underlying, long-standing challenges made more difficult because of the past year. In summary, they include:

- The enduring importance of financial inclusion in tackling the health, financial and economic impacts of Covid.
- Widespread concern about the exacerbation of poverty because of the pandemic, with continued uncertainty on its full impact, and with bleak overall forecasts.
- The growing importance of client resilience – and particularly that of women – a result of concern that the pandemic has had an outsized adverse impact on women and undone gains in empowerment and equality.
- The close inter-connection between client, institutional and sector-level resilience, and the feedback loops that exist between them, including how efforts to strengthen resilience at one level can even undermine it at another.
- Despite notable progress, the continued need for better coordination and partnerships, especially between providers and governments/regulators, who will have to continue to play a larger role than before.

- The need to manage the inevitable growth in digital products and channels, catalysed by the pandemic, and the likelihood of many low-touch, branchless delivery models becoming permanent – with associated changes at providers, closing branches and with more staff working remotely. This relentless digitisation continues to divide respondents, many of whom still see digital as a threat to social mission and, particularly after the closure of the Smart Campaign, to client protection.
- And respondents point out many other challenges too – from the need to take the lessons of Covid-19 to build client resilience to climate change, to increase accessibility of affordable housing (and finance) for the same reason, and the permanent importance of financial literacy and serving the 'missing middle'.

How has your role, individually or as an institution, changed since the beginning of the Covid-19 pandemic? What lessons have you (or your institution) learned from it?

- There has been, for many, a considerable challenge in retaining value and productivity through a year of remote working and travel restrictions which have made certain TA and research activities challenging or even impossible.
- However, necessity being the mother of invention, there have been gains too – from virtual events bringing in new participants to support providers training local experts to the less tangible sense of shared focus.
- This shared focus has been visible in many places. Collaboration among funders to meet the shared challenges is welcome, and there is a strong hope that it can remain in a post-Covid sector.
- For many respondents, there have been new roles to take on in advocacy and lobbying, particularly in response to fast-changing regulations to respond to the crisis and protect providers and clients.
- For FSPs especially, the last year has imposed new and challenging responsibilities, with considerable stress, anxiety and in some cases, grief. It is important not to forget the human cost of the pandemic and those who have suffered the most.
- For most, an enduring lesson to take from this crisis has been the value of flexibility and institutional agility; think and move fast – but ensure that what is being done has value. Be cautious of conflating activity with impact.
- Finally, there is a challenge for support providers, infrastructure organisations, funders and others to remain relevant in a sector undergoing an influx of new entrants, new investment fashions and, more than ever, a crisis which has dramatically upended priorities and resources everywhere.

What changes (including because of the effects of the pandemic) would you most like to see in the financial inclusion sector in the next several years? How can we 'build back better'?

- Reforms in markets and data sharing to increase responsiveness to future crises, including via regulation. The sector cannot start from scratch next time there is a crisis. Make the gains of the last year permanent.
- A renewed focus on client-centricity, acknowledging that the impact of the pandemic on poor households and businesses is not fully known, but will be enormous. Supporting these clients will be paramount.
- Digital may well be both threat and opportunity, but there must be a strengthening of strategic alliances with fintech, which must be seen as a partner, not an adversary, to find balances between the opportunities it provides and the qualities of traditional models that must be preserved.
- There must be continued understanding, beyond the crisis, that the sector is intricately interconnected and inter-dependent. No organisation is an island, and different stakeholder groups must work collaboratively for their shared ultimate ends.
- Finally, there are opportunities, first presented in the special edition *Covid-19 Compass* but expanded upon here, for a wholesale re-think of the entire financial inclusion system: more demand-oriented, flexible, and responsive, getting back to the roots of financial intermediation to develop a sector that works for more people.

Background & Methodology

The *Financial Inclusion Compass 2021* is the fourth in the annual series, but the 2020 edition was a standalone publication – a special edition *Covid-19 Compass* that adapted its structure and content to the unique situation in the early months of the pandemic. This 2021 survey largely reverted to the mixed-methodology structure and questions of the previous years, with a mandatory quantitative part I – split into Trends and New Areas of Focus, but both sections with space for optional qualitative comments – and an optional part II, this time with just three questions focused on the impact and implications of Covid-19 on the sector and its future.

Beyond the particular focus on the pandemic, the survey (and this publication) continues to evolve. Certain open-ended questions, such as on the roles of new entrants and respondents' wish-lists, will not appear each year, but will come back periodically. To balance the goal of useful year-to-year tracking of trends with ensuring they are maximally relevant to a changing context, there are some other changes this year. There are Trends and New Areas of Focus removed which have clearly been of low interest to respondents before, and several new ones have been added based on respondents' feedback and conversations with key sector stakeholders.

As before, respondents were required to provide all their personal and organisation details, but they could elect that their responses would be anonymised before publication in this paper.

Finally, the survey, which was open for three weeks in May 2021, was available in English, Spanish and French.

Survey Respondents

There were 125 *complete* responses to the survey, from 39 countries. The top fifteen countries in terms of **respondent location** were the USA, Germany, France, Nigeria, Luxembourg, Ethiopia, the Netherlands, Belgium, India, Switzerland, UK, Madagascar, Bangladesh, Italy and Benin. 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. The distribution of respondents can be seen in Figure 2, showing an increase in respondents reporting a 'global focus', increasing representation from Sub-Saharan Africa, and lower representation from Latin America than in previous years.

Respondents were also asked to give the type of organisation they work for, both as a high-level category (FSP, funder, etc) and then within sub-lists (microfinance bank, think-tank, MIV Manager, etc). 'Infrastructure organisation', an uncommon term, was used as an umbrella name for local or regional associations, or networks, regulators, credit bureaus or supranational organisations.

The distribution of respondents by organisation type can be seen in Figure 3. There is an increase in representation among financial services providers and researchers compared to previous years, and a small reduction in the representation of consultants and support service providers.

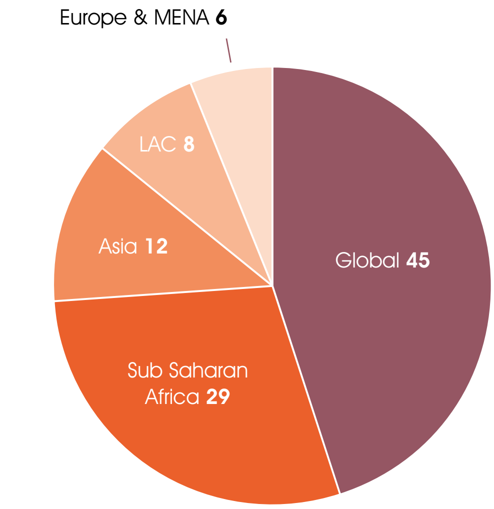


Figure 2

Respondents by Geographical Focus of Work (%)

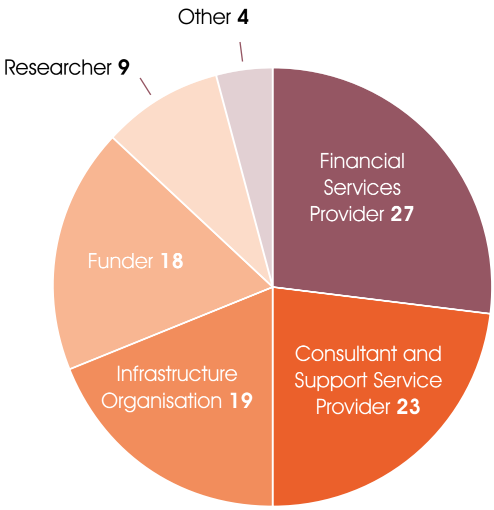


Figure 3

Respondents by Type of Organisation (%)

Where Are We Now?
The Compass Trends

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

"Follow the trend lines, not the headlines."

Bill Clinton

Figure 4
Importance of Present Trends - Overall Rankings

Rank	Trend[1]	Score	2019
1	Strengthening of client resilience	7.95	NEW
2	Increase in women's empowerment and gender equality	7.78	NEW
3	Expansion of digital innovations (client-side)	7.77	3
4	Maintaining or deepening outreach to the very poor	7.77	8
5	Expansion of digital transformation (institutional-side)	7.72	1
6	Innovation in product development and end-user finance	7.57	9
7	Development of client protection	7.53	2
8	Building institutional and sector-wide resilience	7.49	NEW
9	Expansion of social performance and/or impact measurement	7.35	5
10	Promotion of good governance	7.17	7
11	Improvement in the regulatory environment	7.04	4
12	Development of market-level data and infrastructure (credit bureaus, regulatory reports, etc.)	6.92	12
13	Development of new outreach/marketing channels (e.g. agents)	6.79	15
14	Development of non-financial services	6.65	14
15	Support of HR and institutional capacity development	6.57	10
16	Development of institution-level information (ratings, audited reports, etc.)	6.56	16
17	Increase in new categories of financial service provider (fintechs, consumer lenders, banks downscaling)	6.49	6
18	Increase in new investors or funding channels	6.46	18
19	Protecting the sector's reputation	6.18	13
20	Increase in the relevance of academic research	6.04	19

1 Based on respondent feedback and evolving context, some of the names of the trends have changed this year, to reflect the positivity of a trend and its process-led nature – and some trends that previously generated low scores and lack of comments have been replaced with new entrants. Two of these are the top two in Figure 4.

Responses by Geographical Focus of Work and Respondent Type

As always, respondents' assessments of the trends' importance varied significantly based both on the geographical focus of their work, and the role they or their organisation plays in financial inclusion. Figure 5 shows the Top 5 trends among the three largest respondent groups by respondent type and geographical focus of work.

Figure 5

Top 5 Trends by Respondent Category

Financial Services Providers

1	Expansion of digital innovations (client-side)
2	Maintaining or deepening outreach to the very poor
3	Expansion of digital transformation (institutional-side)
4	Increase in women's empowerment and gender equality
5	Innovation in product development and end-user finance

Consultants and Support Service Providers

1	Increase in women's empowerment and gender equality
2	Maintaining or deepening outreach to the very poor
3	Promotion of good governance
4	Strengthening of client resilience
5	Expansion of digital transformation (institutional-side)

Infrastructure Organisations

1	Strengthening of client resilience
2	Maintaining or deepening outreach to the very poor
3	Building institutional and sector-wide resilience
4	Expansion of digital innovations (client-side)
5	Innovation in product development and end-user finance

Global

1	Strengthening of client resilience
2	Expansion of digital innovations (client-side)
3	Building institutional and sector-wide resilience
4	Development of client protection
5	Expansion of digital transformation (institutional-side)

Sub-Saharan Africa

1	Increase in women's empowerment and gender equality
2	Maintaining or deepening outreach to the very poor
3	Expansion of digital transformation (institutional-side)
4	Innovation in product development and end-user finance
5	Expansion of digital innovations (client-side)

Asia

1	Maintaining or deepening outreach to the very poor
2	Expansion of digital transformation (institutional-side)
3	Expansion of digital innovations (client-side)
4	Development of client protection
5	Improvement in the regulatory environment

Figure 6 shows the ranking of three selected trends by the five largest respondent groups, as well as the overall ranks for those trends.

Figure 6

Ranking Comparison of Selected Trends by Respondent Type

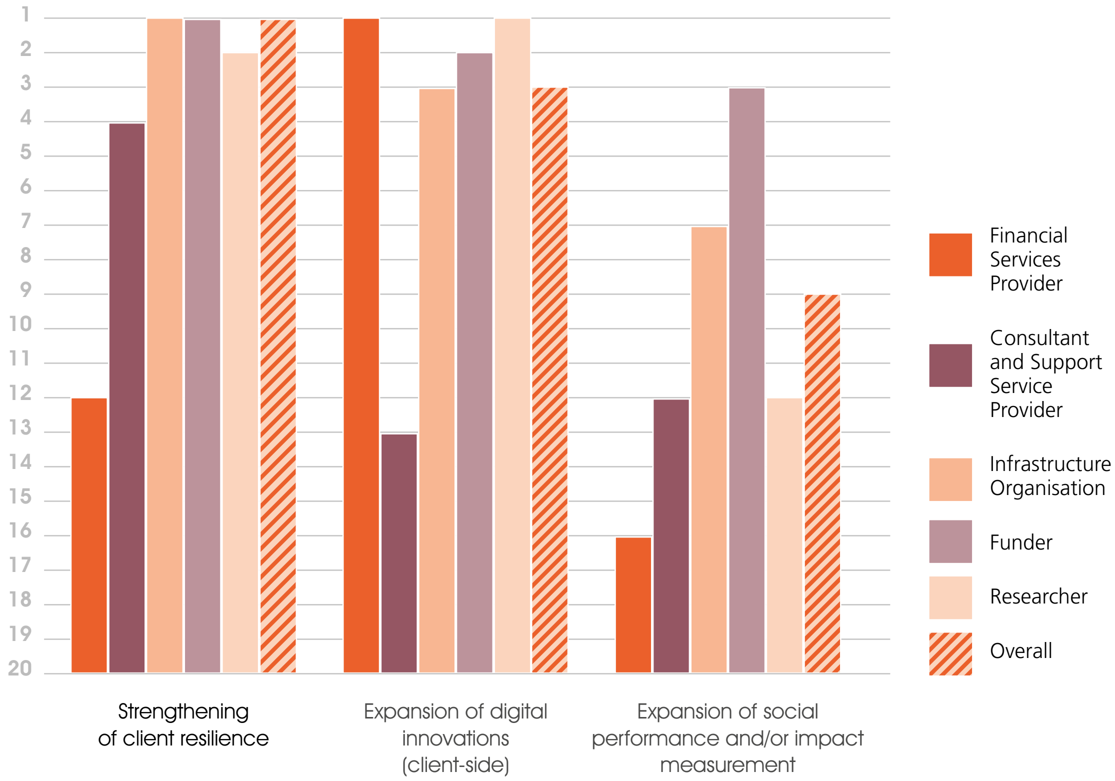


Figure 6 reveals clear differences in perceptions of trends between respondent groups. Financial service providers rank **Strengthening of client resilience** a lowly 12th versus 1st overall (and at least 4th among all other respondent groups) – perhaps surprising considering that FSPs are generally the stakeholders who see clients from the closest vantage point, but perhaps practitioners have been largely reassured by the resilience of their clients during the pandemic, an explanation supported by some of the comments.

By contrast, FSPs are extremely bullish on the importance of **Expansion of digital innovations (client-side)**, a considerable increase from last time when FSPs were in fact the lowest-scoring respondent group on this trend. Has the pandemic served to focus and catalyse perceptions of the value of branchless and digital models? Have providers come round to the opportunities it holds, or do they realise they will not be returning to the high-touch models and so expediting digital services is critical for business continuity? There is a drop in the trend among consultants and support providers from previous surveys (13th versus 3rd overall, and down from 4th in 2019) so they seem not to share FSPs' views here.

FSPs also put **Expansion of social performance and/or impact measurement** a lowly 16th versus 9th across all respondents. Most comments here were from other stakeholder groups (such as funders, who rank it in 3rd) and who are clear that progress and momentum in this area must not be lost because of pandemic distractions, but who generally want it to be more effective, not just for 'show'. It's possible that FSPs see this as an increasing burden with little to show as a result - or that the pandemic has absorbed their focus and this is not currently a high priority.

There are several other interesting differences in respondent groups:

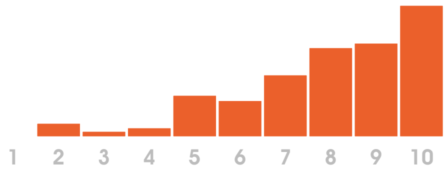
- FSPs rate **Increase in new investors or funding channels** 8th – versus 18th among all respondents.
- Consultants put **Promotion of good governance** 3rd – versus 10th overall.
- Infrastructure Organisations and Funders both put **Increase in women's empowerment and gender equality** 7th – versus 2nd overall.
- Researchers put **Maintaining or deepening outreach to the very poor** 15th – versus 4th overall.
- Researchers put **Increase in new categories of financial service provider (fintechs, consumer lenders, banks downscaling)** 9th – versus 17th overall.

By **geographical region of focus**, there are some clear divergences between groups:

- **Strengthening of client resilience** is high (1st) among respondents working globally, but only 10th among those in Sub-Saharan Africa; it is 8th in Asia and 6th among Europe and MENA respondents.
- **Development of client protection** is rated low among the admittedly small group of Latin and Central American respondents – 13th versus 7th overall.
- **Building institutional and sector wide resilience** is high (3rd) among global respondents but only 13th in Sub-Saharan Africa and 14th in Europe and MENA.
- **Improvement in the regulatory environment** is high among Asian respondents (5th), and very low among those working in Latin America, Europe and MENA.
- **Development of non-financial services** is highest among European and MENA respondents, but extremely low among those working in Latin America (18th), Sub-Saharan Africa (19th) and Asia (20th).
- **Protecting the sector's reputation** is rated much more important (9th) in Sub-Saharan Africa than in all other groups (19th).

The Top Ten *Compass* Trends What Respondents Wrote

1. Strengthening of client resilience



[2]

'Strengthening of client resilience' was a new trend this time, added to reflect the current context: the pandemic has had a devastating effect on low-income households, which are particularly susceptible to downturns in trade and tourism, with businesses that have been shut down for long periods over the last year, and living in countries that lack rich countries' capacities to borrow or print money to provide an enormous financial safety net. All of these factors were clearly described in 2020's special edition *Covid-19 Compass.* So while it's a new entry, it's not surprising that the threat to client's resilience (and therefore the need to strengthen it) is at the forefront of respondents' concerns.

Respondents had a lot to say here. Clearly, the Covid-19 pandemic dominates the discussion; the need to strengthen resilience is "*especially due to Covid-19 challenges*", according to Juan Carlos Izaguirre, Senior Financial Sector Specialist at a global infrastructure organisation. The *"repayment capacity of clients becomes low in several affected activities (tourism, transportation, trade other than basic necessities, etc.)"*, writes the Director General of an MFI in Madagascar, and *"the pandemic highlighted the vulnerability of clients to unexpected consequences such as lockdowns",* according to a VP at a global research institution.

The pandemic has been a shock – in all senses of the term – across all countries and at all income levels. But this notion of resilience is deeply woven into the lives and needs of the financially excluded and the services and support the sector has to offer. For many respondents, therefore (and explained in much greater depth in the later, qualitative sections of this paper) Covid-19 has posed a test not just to clients and institutions, but to the sector at large – to live up to its lofty claims when it matters most.

How do respondents grade their own performance as a sector? It's mixed. The pandemic "*has shown that more needs to be done to build resilience to shocks*", says Mayada El-Zoghbi, Managing Director of a US-based infrastructure organisation. Strengthening such resilience will be *"particularly important in the post-pandemic world, characterized by decapitalized MSMEs and farmers that have [been left] especially vulnerable"*, writes Graham Wright, Managing Director of a consultancy working globally.

But not every respondent is despondent. Damian von Stauffenberg, US-based founder of a ratings agency argues that "*2020 has shown [that] client resilience already is much higher than expected*". A respondent from a Europe-based infrastructure organisation sees the silver lining in the current clouds, in that the sector *"will be paying close attention to client resilience in the coming years as this is crucial for the sector to navigate the pandemic crisis successfully".* And María Yudelka Flores, Executive Director of an FSP in the Dominican Republic believes "*clients in the regulated and unregulated financial sector are becoming increasingly capable of building skills and strengths to exit crises…they are also becoming more aware of their rights vis-à-vis financial service providers".*

A prevailing theme among responses to this trend is the inseparability of the immediate urgency of the pandemic crisis and the longer-term importance of climate change and its threats to clients. Resilience is needed *"especially in light of the pandemic and effects of climate change"*; *"climate change plus COVID means more of an emphasis on this area"* and *"including climate resilience!"* write respondents from a South Asian infrastructure organisation, a global funder, and a Europe-based researcher respectively.

2 The histograms in this section illustrate the distribution shape of responses for that trend. On the x-axis is the importance score (1-10); on the y-axis is the number of responses for each score.

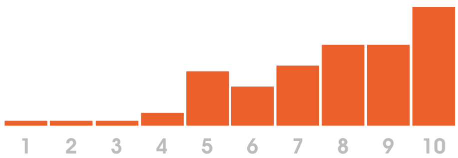
This is all very well – but how? Respondents gave rich insights in the 'Building Back Better' section (see page 53 of this paper) but here, several observed the importance of support services and financial products beyond credit. We must "*let clients develop solutions for themselves, given savings groups access is more important than seeking new ways to be relevant*", argues Hugh Allen, CEO of a consultancy focused on Sub-Saharan Africa. Savings *"have shown their importance for client resilience during Covid"*, writes the Managing Director of a Europe-based infrastructure organisation working globally, and "*insurance services are [poorly] spread and [don't] get the recognition they should deserve*", according to a Europe-based consultant. Moreover, "*general digitalization trends*", which seemingly finds its way into every conceivable topic in financial inclusion, is not just a driver of resilience but a "*threat*" to it as well when not accompanied by financial literacy, according to the Managing Director of a support provider working in MENA.

If there is any single takeaway here, it is that, with four of the top five trends directly focused on protecting and supporting vulnerable clients, a change on previous *Compass* editions, the pandemic has re-galvanised attention to the client as the focal point of financial inclusion, something equally evidence in the second-ranked trend – 'Increase in women's empowerment and gender equality'.

"Strengthening client resilience is the end goal of the financial inclusion ecosystem"

Regional Manager for Migration and Remittances at a global ratings agency

2. Increase in women's empowerment and gender equality



Like 'Strengthening of client resilience', this was a new entrant among the survey trends (although in previous years 'finance for women' had been included as a New Area of Focus). It was added as a present trend this year in response to the clear impact the pandemic has had particularly on women, risking undoing years of progress in a trend that was moving broadly in the right direction, the reversal of which is concerning and even frightening for many respondents – not least because the full extent of the damage done is not yet known.

"This is of fundamental and continued importance", writes Jurgen Hammer, Managing Director of a Europe-based infrastructure organisation working globally. The pandemic *"has exacerbated women's disempowerment and gender inequality"*, says the Director of Network Engagement at a global infrastructure organisation. The past year *"has shown that women have been disproportionately affected - negatively - by the pandemic...many women do not own smartphones or have very limited access which hampered the ability of FSPs to reach and support them during this period"*, according to a researcher at a US-based think-tank and network.

Despite recognition in recent years of the gender investment gap and the need for gender lens investing, "*women [are] typically overrepresented in essential services (ranging from healthcare, sales, cashiers, childcare, schools etc.) [and are therefore] much more vulnerable to the pandemic*", writes Noémie Renier, Head of Debt for Financial Institutions at a global funder, adding that the pandemic *"is threatening progress achieved in women empowerment, potentially increasing inequalities and putting at risk of poverty millions of women. More remains to be done, in terms of providing adequate access to financial and non-financial services (training, mentoring and networking)"*. Put another way, we must "*understand the impact of Covid-19 on gender empowerment through financial inclusion*" in order to *"respond accordingly to minimise the impact"*, argues Nishant Kumar, CEO of a South Asian MFI.

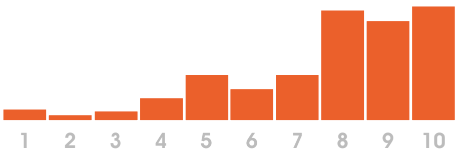
Some respondents sought to look beyond the recent impact of the pandemic on women's equality to the variables within a broader trend. There is "*good progress in this area*", writes P. Satish, Executive Director of an infrastructure organisation in South Asia, "*but empowerment is needed in [the] digital space*". It is "*better in MFIs [than in] banks*", argues Kassahun Gonfa, Social Performance Management (SPM) Section Head at an Ethiopian MFI. And the proliferation of sector initiatives and the high rating of this trend is surely good news – evidence that whatever the challenges ahead, at least the issue is front and centre? As a respondent from a European infrastructure organisation writes, "*maybe it's Covid, or that I'm more and more interested in this, but I have the feeling women and gender issues are getting a lot of attention lately…*"

Nevertheless, there's enormous work to be done to re-establish previous progress and mitigate the negative impact of Covid. There are "*too many visible male representatives*", argues a Microfinance Specialist from a Spanish foundation. "*The gender approach in finance must also contain [more visible] female figures*". We must also not simply equate gender equality with women's empowerment: "*It's also important to have an expansive view of gender equality so that transgender, non-binary and other gender minorities are included*", observes a Financial Sector Specialist from a global infrastructure organisation. And finally, a provocative word of caution from a rater: "*In most countries a substantial majority of MFI clients are women. Pushing the participation of women much higher will do more harm than good*".

"[This is] extremely necessary to achieve a more equal, equitable and fairer world"

Financial services provider in Central America

3. Expansion of digital innovations (client-side)



Undoubtedly the dominant theme of conferences and research, a driver of innovation and catalyst for new sector entrants for years, digital financial services for clients is in 3rd spot, same as in 2019. The focus has changed this time round, though, from the prior tension between increased efficiencies, greater outreach and delivery of financial education on the one hand and fears over threats to client protection on the other, to *continuity of services* – digital innovations as a crisis lifeline for clients in desperate difficulties, unable to open businesses or travel to branches or groups.

Undoubtedly, Covid-19 has drastically accelerated the expansion of digital financial services. It has been given "*a strong push by the Covid crisis*", says a Europe-based Managing Director. "The expansion of digital innovations is an inevitable consequence of COVID-19 pandemic and lockdown", says a US-based researcher, and it is probably playing a "*positive role here, with clients getting familiarised with technology and seeing the advantages it can have (and so opening a window of opportunity for the FSPs)*", according to a Microfinance Specialist at a European infrastructure organisation.

And it goes far beyond disbursements and collections to mobile wallets, but includes "*Digital ID, blockchain and Central Bank Digital Currencies, etc.*", writes Rod Dubitsky, Executive Director of a UK-based network, and "*Universal Payments Interface*", which has "*changed the payment system in India*" writes Nishant Kumar, CEO of an FSP in South Asia, and which demonstrates that "*private digital innovations can ride much more easily on public infrastructure since the latter is costly to develop and takes time and consensus*". This "*will have more far-reaching consequences than any other developments in the last decade*", he adds.

Digital progress must encompass more than just product design but also *usage* – are digital products and platforms accessible and valuable to end-clients? "*Before [focusing on] digital innovations, we probably need to look at the ability of end customers to make use of digital tools... digital inclusion... but the development of some applications to better manage company (or even household) finances are certainly relevant*", writes a support provider working in Sub-Saharan Africa. And usage must be *real*: "*accompanying the expansion in digital innovations [must be] the expansion in digital adoption and reduction of digital exclusion*", writes a director at a global network. We have to "*make it possible for rural clients to participate in this trend*", according to Birgit Galemann, Germany-based Director of a TA Provider, and there are "*still gaps in making digital innovations more client friendly*", writes an Executive Director of an infrastructure organisation working in South Asia.

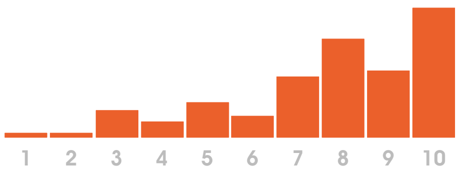
Which organisations are best suited for this challenge? "*MFIs must play a role, as this is what the clients want*", writes Usman Ahmad Modibbo, a Nigerian PhD candidate, despite "*more of the commercial banks invading this space through agency banking products*". A practitioner from the Dominican Republic agrees: "*traditional banks continue to have rigid structures that do not favor inclusion*", whereas "*fintech is a way to get closer to the customer and favor financial inclusion*".

And echoing the clarion call of the past decade, respondents reiterated the importance of digital products for clients being demand rather than supply driven and focusing on value rather than faddism. "*Innovation is needed in this area but moving into demand-led products that serve the immediate needs of groups for good records is more important than using digital solutions as data for researchers*", writes Hugh Allen, CEO of a Germany-based TA Provider working in Sub-Saharan Africa. "*The crying need is for simple and reliable record-keeping, not over-ambitious flights of fancy concerning linkages and expanding services. More consideration of linkage risks needs to inform the way forward*".

"Digital has become a critical and priceless tool"

Researcher in Western Europe

4. Maintaining or deepening outreach to the very poor



This trend is up sharply from the last time it was included, undoubtedly because of the potentially catastrophic impact of the pandemic on hundreds of millions of the global ultra-poor. Mostly, respondents were very pessimistic.

"*What a challenging area this is - how few MFIs reach the 'very poor' successfully, [there is] an increase in poverty due to 2020*", writes the Head of Risk at a global funder. It is "*a topic which has been left out for many years*", according to a Senior Investment Manager at a South America-focused funder. The "*socio-economic fallout of the Covid-19 pandemic will likely push towards exclusion of the poor and [other] difficult to serve segments*", says CEO of an MFI in Sub-Saharan Africa. And it's only going to get worse: "*most financial institutions are starting to abandon the very poor who are supposed to be at risk*", writes the Director General of an MFI in Sub-Saharan Africa.

Not all responsibility lies with the FSPs though, which have countless external pressures. They face both "*deteriorating portfolio quality amid covid and prevailing uncertainty with respect to vaccination progress and economic recovery*", says Head of Debt at a global funder, causing "*more prudent lending [and] sometimes stricter underwriting standards from FSPs*". The solution is not an easy one and needs funders to share the pain, this respondent says. "*Resuming on-lending to the more vulnerable (hence risky) entrepreneurs, allowing them to resume or restart their business, will be critical to ensure sustainable recovery, but this will require FSPs to rebalance risks with economic and social recovery, in turn requiring investors to reconsider their risk appetite*".

But are the 'very poor' really who microfinance institutions can – or should – serve? Some respondents questioned the premise. A researcher from West Africa argues they should serve the "*economically active poor- yes…but the very poor? This may be too costly and the risk much higher"*. An independent consultant working globally adds to this caution, saying that microfinance *"is not the best tool for the very poor, unless complemented by consistent non-financial services"*.

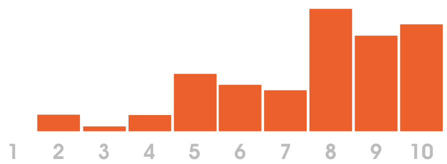
Nevertheless, there are seemingly pervasive problems with trying to align a purported mission to serve the very poor with the broader trends underway in the sector. Priority is given to "*experimental technology*" at the expense of a "*focus on massification of entry level programmes*" in a sector "*transfixed by smart phones and with donors almost indifferent to the potential for scale using face-to-face [models]*", according to a TA provider.

Moreover, the financial inclusion sector "*continues to mainly saturate the already existing market, rather than identifying viable business models to serve those who continue to be under- or unserved by the wider financial sector"*, argues Ayako Iba from a global ratings agency. And this apparent misdirection of priorities is compounded by institutions *"paying more lip service than making actual efforts"* in serving the very poor, according to the executive director of a South Asian network of FSPs. A practitioner from Central America puts it cynically and strongly: reaching the very poor "*is the dream of the hackneyed phrase 'financial inclusion', that has a long way to go to be able to showcase great achievements*".

"Utmost priority. The major part of a microfinance institution. Leave No One Behind"

Head of Small and Micro Banking at South Asian MFI

5. Expansion of digital transformation (institutional-side)



This trend has dropped from the top spot in 2019, and the average score is considerably lower as well (7.72 vs 8.31). However, this is likely more to do with new trends perceived as more urgent (client resilience, for example) than digital transformations of institutions becoming objectively less important. What is clear though is that, for certain providers, this has become a necessity to survive, and for some funders and other supporting stakeholders, an inevitability, catalysed by the pandemic and its long tail.

"Digital transformation can reduce the cost of operations, innovation, and reaching new clients", argues W. Britt Gwinner, an advisor at a US-based TA provider working globally. It's also *"no secret that the pandemic has accelerated, sometimes obliged, digitalization of financial service provides"*, says a global funder, who lists the manyfold benefits to clients and providers alike and believes that "i*f digitisation is a train that FSPs cannot afford to miss, there is no "one-size-fit-all", hence FSPs also need to make sure they do embark the right train!"*

But the train has changed – or at least is going on a different track now. The head of a network of investors says, *"this is one of the biggest trends coming out of the past year and going forward"* and a director at a global network notes that "*the long-lasting Covid-19 pandemic has accelerated digitalization of the marketplace, which can be an existential challenge or a growth opportunity for a financial service provider"*.

Whether the past year has been defined by challenge or opportunity for institutions is largely due to how far digital transformation had progressed before the start of the pandemic. "*Most*", says the Managing Director of a US-based infrastructure organisation, "*were not able to pivot quickly enough*", not least because digital transformation is too often conflated with digital payments. It is so much more than that, says the Head of Division at a Germany-based TA provider, "*it is processes and procedures in the institutions*".

Advocacy for 'digitisation as panacea' sometimes approaches zealotry, but how much is it based on clear evidence of what's needed, rather than incubator pitch gloss and FinTech jargon? *"I know digitalization is crucial …but are there any studies showing the real impact on certain segments of clients? I [see] more risks (not well managed) than actual benefits*, writes an independent consultant in Europe. And the Managing Director of a TA provider working in Sub-Saharan Africa cautions against putting the cart before the horse: "*Digital transformation is not only about technology...it is about people, business processes and data in the organization. There are many things to review/strengthen upstream, before "digitizing"*.

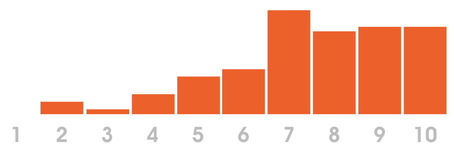
Overall, the consensus among respondents is that the importance of digital transformation in institutions is a *qualified* yes. It needs to be done "*in a way that is based on the clients' real needs*" (according to a TA provider in MENA); it is most important with respect to *"knowledge of clients and behavioural tailoring of services"*, (according to an impact banker at a global funder), and its real value might lie beyond the usual list of cost efficiencies, in "*climate risk management, verification of clients' green investments, promotion of productive investments in agriculture, disclosure and reporting of climate and environmental risks and opportunities*", according to Davide Forcella, Head of Green Inclusive Finance at a software and advisory provider, and head of e-MFP's Green Inclusive and Climate Smart Finance Action Group.

But it's possible that this is an area where non-specialists will always struggle to fully appreciate the potential. Graham Wright, Group Managing Director at a specialist global support provider is clear that digital transformation is vital: *"This is key to the future of MFIs - a reality still hopelessly under-estimated"*.

"Work in progress"

TA Provider in Sub-Saharan Africa

6. Innovation in product development and end-user finance



Once again, the tentacles of the pandemic are long – respondents increasingly think about innovation in product development in the context of client resilience and crisis recovery. This includes "*disaster risk/climate adaptation finance*", according to Tamara Campero, Access to Finance Specialist at a global funder, and the need for "*some innovative rescue measure to recover the [short]fall of financial income*", according to a European researcher.

Mostly, though, respondents complained that innovative product development is too seldom client-centric, and product development with *"a viable business model should be prioritised over digitisation just for the sake of it"*, writes Ayako Iba, a Regional Manager at a ratings agency. A department head at an MFI in Sub-Saharan Africa argues that innovation itself is rare; providers just lazily "*copy paste from each other and are not periodically revised*".

So what's the way forward? There needs to be *"increased tailoring, flexibility and embedded finance provision"*, according to a global funder. Lending for financial institutions must be *"de-risked… often this is about tweaking existing products rather than creating new ones"*, writes the head of a global TA provider and research body. Attention must be given to "smart agriculture", according to a client protection consultant, and "*also for green energy, which financial intermediaries are still reluctant to finance (more for lack of skills and methods than products)*", according to the head of a European support provider working in Sub-Saharan Africa.

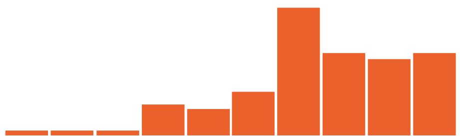
And innovation almost always requires a tailored approach, based on genuine insights into what clients need. Solutions need to be *"more adapted to each specific case"*, argues a microfinance specialist at a European foundation, and microlenders that *"are satisfied maybe in a rut with short-term working capital lending and digital payments" will lose out to "those that invest in innovation to better understand the economics of their client households can extend their addressable market"*, says an advisor to a global TA provider. Only then can providers "*grow into the future and remain in the marketplace*", writes María Yudelka Flores, Executive Director of an MFI in Central America.

How to innovate for scale while maintaining a client-centric and bespoke approach? Digitally, predictably. Nishant Kumar, CEO of a financial services provider in South Asia writes that "*fintechs and banks/ NBFCs…joining hands…has opened the door for product and channel innovations. Fintechs today can work for a niche segment and improve its offerings significantly by focusing on the specific needs of the end users. This provides an opportunity to look at [their] specific needs and customise them specifically".*

"This is already very much in play"

Managing Director of global infrastructure organisation

7. Development of client protection



Client protection may have dropped several spots since its 2nd position in 2019, but that doesn't mean it's become less important to respondents. More likely is that new trends – Strengthening client resilience, in particular – have emerged as yet more critical.

Generally, respondents are positive about the strides made in this area in recent years. "*Client Protection Principles [CPP] awareness and promotion remains very strong*", claims a global funder based in Europe. A head of a ratings agency says that "*great strides have been made in this field and I expect these strides to become even greater in the future*". And there is consensus about the continued importance of progress here – especially now. A respondent from a global network of FSPs says that client protection "*is imperative especially in trying times - this also has the effect of protecting the sector's reputation*", and an independent consultant and former rater notes that it is always crucial, but "*in particular for Tier 3 and 4*" MFIs.

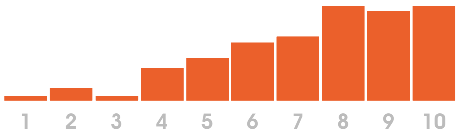
But of course, the end of the Smart Campaign has thrown the future of client protection into question, and several respondents are concerned. A funder writes that "*since the disclosure of the sunset of the Smart Campaign, and ongoing discussion about the succession model, there may be concerns about lower visibility or confusion left by such a gap during the transition period…[it] is critical to ensure coordination, communication and promotion of CPP and [find] a successor [to] Smart Campaign".* A different funder describes this as a "*tricky area at the moment*", because of "*new models emerging and predatory fintechs".* What or who will take up the mantle? A respondent from an infrastructure organisation in Europe notes that since the closure of Smart, "*some sector actors (SPTF, CERISE, MFR, the investors, etc.) have been strongly involved in defining the future of client protection and coming up with the 'Client Protection Pathway'".*

Whatever the post-Smart future of client protection and the evolution of the CPP, it's clear that respondents do not wish the immediate urgency of crisis management to push this bedrock sector achievement into obsolescence.

"I would have preferred to call it "implementation of client protection" - it is already developed - and [I would] add client protection for the larger sector (SME, digital services …)"

Managing Director of global SPM infrastructure organisation

8. Building institutional and sector-wide resilience



It's perhaps surprising considering the widespread recent upheavals in the financial inclusion sector that this new entrant trend that responds directly to this threat is ranked comparatively low (one explanation being that respondents followed the question instructions diligently and believe this important initiative is one for when the dust from the pandemic has settled and is not yet underway *today*).

Regardless of the ranking, respondents were clear about the imperative for change. *"This past year has taught us all that we need to expect the unexpected and plan for what we think will never happen"*, writes a VP of Investor Engagement and Research at a global research body. But sector – and client – resilience comes from the strength of the institutions that provide their services. Protecting institutions is the only way to protect clients and the sector at large.

"Institutions are very important for ensuring sustainable financial inclusion", says a professor in East Africa, and *"the ability to be a "going concern" ensures the sustainability of services"*, writes Gil Lacson, Director of Network Engagement at a global network of FSPs. But it doesn't happen in a vacuum –and cannot be dependent on the largesse of donors: *"The [provider's] business model should drive institutional resilience"*, says Sitara Merchant, CEO of a funder working in Sub-Saharan Africa.

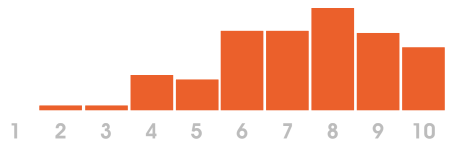
Other respondents pointed to the extremely high uncertainty that still permeates the sector. How can stakeholders develop resilience if they cannot yet know the impact of this ongoing crisis? Teshome Yohannes Dayesso, CEO of an FSP in Sub-Saharan Africa writes that "*how Covid-19 is going to evolve is still largely unpredictable in sub-Saharan Africa where the access to vaccine is very distant; and perhaps several waves of the virus surge will devastate households, economies and ultimately MFIs"*. The head of an African network also underlines this uncertainty: *"We do not yet have visibility on the evolution of the pandemic"*.

But while this trend implicitly includes building sector resilience to future, long-tail shocks like the pandemic, it's easy to let the urgent blind us to the important; to forget that there is another critical challenge facing the poor and vulnerable (and by extension, financial providers), and to which sector-wide resilience must be increased – the climate crisis. This means we must target "*resilience in general*, says a financial access specialist at a funder working globally, but *"also targeting the risks of climate change in the most vulnerable"*. There must be "*specific focus on climate resilience for clients and institutions"*, argues Davide Forcella, head of green inclusive finance at a TA provider, and the threats to clients, providers and the broader sector are "*from Covid and the climate emergency combined*", says the head of risk at another funder.

"Entities that are able to look within themselves and make timely changes required by the new normal are the ones that are likely to remain competitive"

Executive Director at financial services provider in Latin America

9. Expansion of social performance and/or impact measurement



While this trend scores in the middle of the pack, respondents believe that the advances made through standardisation of social performance requirements and increasing rigour in impact measurement must not be lost because of the distractions of the pandemic – and must continue to see progress.

But the progress needs to be real – and not just for show. *"We have to innovate.... we need SPM and Impact Measurement not as an ornament but for effective and integrated (social and financial) management"*, writes a European consultant. There should be *"a routine Monitoring & Evaluation function for all projects"*, writes the CEO of a support service provider. And this demand is increasing – "*particularly because of new models emerging*", according to a global funder, with "*greater demand for accountability and reporting of impact measurement especially regarding climate risk"*, according to a US-based researcher, a need echoed by Davide Castellani, a researcher based in Italy: "*this will be key to attract funds from impact-, sustainable- and green-oriented investors".*

This trend doesn't sit neatly in a single category, with implications for everything from sector reputation and client protection to research and funding. Are things moving backwards, a result of impact-washing and the distractions of Covid? SPM comprises the *"vital…importance of accountability and transparency in particular at a time when CSR/ESG become so generalised (and potentially diluted)*", writes Jurgen Hammer, Managing Director of a global SPM infrastructure organisation. There are practical obstacles right now; the head of a network of MFIs in Sub-Saharan Africa says it's "*expensive and difficult to do in the current context".* And there are communications and education blockages too: "*There is still a low level of awareness and understanding of social performance and its measurement among practitioners*", argues a researcher in West Africa. Only by improving this can there be "*results that reflect reality*", according to Meltine Rasoanandrasana, Deputy Director of an MFI in Madagascar.

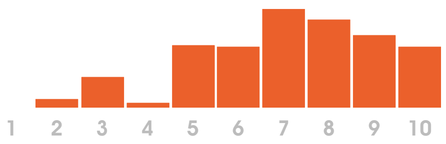
But there are positives, too. Noémie Renier, Head of Debt for Financial Institutions at a global funder details the relevance of the EU's Sustainable Finance Disclosure Regulation for EU-based impact investors, claiming it has brought impact measurement "*to the forefront of impact's investors agenda, making impact investors even more accountable for the sustainability objectives they claim to achieve…[if] the progress achieved in social performance management and assessment over the last decades can be leveraged to contribute to meaningful ESG indicators, increased regulatory oversight could foster more rigorous measurement tools and approach, and prevent the risks of impact-washing.*"

Much will depend on "*coordination, communication, and dialogue",* she adds, believing it *"will be key to avoid the multiplication of 'impact' languages and taxonomies, which may decrease…transparency and create confusion within the impact investment world".*

"Yes, of course. This will represent a qualitative change for the benefit of the end users of financial services"

Head of MFI in Latin America

10. Promotion of good governance



Good governance is down in the rankings this year and elicited slim pickings in the comments – although, among those who did contribute, there was consensus that there's plenty of room for improvement still.

A support provider in MENA advocated more "*hands-on tools…allowing especially board members to really oversee and guide an MFI together with its management*". It is "*a basic requirement if institutions have to perform*", says a respondent from a South Asian network of FSPs, and good governance is particularly needed for "*Tier 3 and 4 MFIs*" and "*cooperatives*", according to a European consultant and the Director General of an NBFI in South-East Africa, respectively.

"*Some things never change! This is very rarely optimal in institutions we work with!*", says a global funder, and there needs to be more "*women's participation and contribution in governance – executive structures are key!*", according to a different global funder.

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

Improvement in the regulatory environment

"[Need] more proactive support from regulators in terms of access to long term funding"

Global funder

"Nothing has as much impact on financial inclusion as the development of a sound regulatory environment, administered by agencies that know what they are doing. Moreover, the cost is comparatively low"

Global ratings agency

"Regulation is an obstacle to inclusion, innovation and digital transformation"

Practitioner in Central America

"Regulators need a bottom-up approach for rapid expansion in the low-income segment. Hardships faced due to KYC norms, regulatory filings, limiting FDI, putting a cap on the cost of service etc. make it difficult for new business models to emerge. There has to be a trade-off and conscious approach to safeguard innovations and protect [the] sector and the customers"

CEO of MFI in South Asia

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

CEO of MFI in Philippines

"This is key! Our regulatory institutions need to develop adoptable policies and where necessary, they need to provide support mechanisms to help the institutions grow"

Researcher in West Africa

"The sector is not properly regulated like banks"

Executive Director at support service provider in West Africa

Development of market-level data and infrastructure (credit bureaus, regulatory reports, etc.)

"Very important as it will help sanitize the system. When the clients begin to understand that institutions keep records of their repayment history and that this [can] affect their chances of getting [future] loans from another [MFI], we may begin to have more dedication in terms of credit utilization and proper management of funds"

Researcher in Sub-Saharan Africa

"This [must] also include sector level data (a critical review of the data points/metrics needed for a more efficient management, for an effective impact on clients)"

Europe-based consultant

Significant but perhaps on a back foot given current COVID environment"

Head of Risk at a global funder

"This is a prerequisite for private players participating in a new geography. Covid has added a new dimension where the defaults might be attributed to [it]. In this circumstance, how should regulators respond? It is critical for fintechs which have provided first loan default guarantee and could have a large bearing in case of mass defaults"

CEO of FSP in South Asia

Development of new outreach/marketing channels (e.g. agents)

"Most savings group expansion is driven by group-initiated self-replication. The sector pays very little attention to this as a resource and doesn't track it closely enough"

CEO of TA Provider in Sub-Saharan Africa

"Post covid, digital is the way forward. Hopefully, there is a significant shift in accepting digital delivery of financial products. India in particular will gain significantly if traditional challenges of trust, capability can be overcome through digital models"

CEO of MFI in South Asia

"[Currently] Limited to urban areas only"

SPM Head at MFI in Sub-Saharan Africa

"Marketing channels are well placed, but there always has to be effort to innovate"

Executive Director at South Asian network of MFIs

"Significant given COVID restrictions – perhaps more of a 2020 point"

Europe-based global funder

"The development of proximity services is necessary to reach customers"

Director General of MFI in South-East Africa

Development of non-financial services

"Financial literacy is crucial to avoid the risk of affecting vulnerable clients with inappropriate lending practices. The fact that the majority of [such] trainings have not lived up to expectations is not a reason to stop investing in it…but should be a reason to improve financial literacy. Interesting approaches have been tested applying behavioral economic concepts…"

Independent consultant

"Optimize the synergies that the digital revolution offers us to answer, 'financial inclusion for what?' - These synergies take us into agriculture, education, health etc."

Head of TA provider working globally

"I have experienced this in our educational financing program, especially for green products. it requires guidance and knowledge that end users do not have"

Head of MFI in Latin America

"Yes, insofar as it could contribute to de-risking certain investments. There is still a real need for financial education and Business Development Services for clients. Many entrepreneurship support programs do not cover (sufficiently) the issue of access to finance"

Managing Director of Europe-based TA provider working in Sub-Saharan Africa

"I would rather go on consolidating what has already been developed and promoting their implementation"

Researcher in Sub-Saharan Africa

"Yes, in terms of growth of products and services which have embedded [non-]financial services, v expansion of the role of existing FSPs"

Funder working globally

Support of HR and institutional capacity development

"Especially in relation to the transition to digital finance"

Head of African network

"HR is the poor relation of the sector. We notice this during each diagnosis of TA needs that we carry out for our clients. The consequences are not negligible: high turnover, internal staff frustrations (impact on individual and collective performance), no talent management"

Head of TA Provider working in Sub-Saharan Africa

"Pandemic restrictions [are] causing delays and preventing informal (& best) 'on the job' learning"

Global funder

"The transition to digital channels and products required by the pandemic has highlighted the need for institutional capacity development"

US-based researcher

"High when applied to new entrant FSPs"

Impact banker working globally

"Yes, because HR is a much more important resource than financial, material and time resources"

Deputy head at MFI in South-East Africa

Development of institution-level information (ratings, audited reports, etc.)

"Quality of ratings is often deplorable"

Founder of ratings agency

"Significant - although I think most MIVs have now developed their own information templates"

Global funder

"It's not so much about ratings, but about supervisors being able to monitor risks"

Managing Director of infrastructure organisation working globally

"External independent parties' verifications are crucial, but the gaps at institutional level refers to data/metrics definition, management, use of information for decision making and quality of collection. FIs often do not collect the data they actually need to improve decision making and impact on clients and they do not actually value what they already measure"

Former rater

"Ratings and external auditing firms have lost some credibility"

Executive Director of Latin American MFI

"The data reliability of self-reported information provided by organisations that work in unregulated markets continue to be very limited and not comparable with international benchmarks"

Regional Manager at global support service provider

Increase in new categories of financial service provider (fintechs, consumer lenders, banks downscaling)

"I have the feeling the hype in fintechs is somehow decreasing a bit, but maybe it's just that Covid has taken over everything..."

Senior Microfinance Officer at infrastructure organisation

"It should not be seen as a commercial opportunity. It should be done on a not-for-profit basis and avoid being done from large banks"

Ethical Finance Specialist at Europe-based foundation

"Digital and fintechs are the way forward"

CEO of South Asian MFI

"Informal workers living in informal settlements remain underserved. Where this is changing, often it is because new actors come on the scene and tailor services and products to this population"

Advisor to global TA provider

"Let the market take care of that. Pushing Fintechs beyond what present technology can do is counterproductive. Similarly, consumer credit is often a double-edged sword"

Ratings agency

"A clear definition and segmentation of FinTech types of institution is needed...very relevant to be able to ensure that client protection at fintech level is ACTUALLY implemented"

Former rater and consultant

Increase in new investors or funding channels

"An 8 for new entrants but only a 5/6 for existing FSPs"

Global funder

"Diversification of financing channels with affordable terms is necessary to be able to support the recovery of Covid-19 affected clients"

Head of MFI in Sub-Saharan Africa

"Especially for the pioneer gap"

CEO of Funder working in Sub-Saharan Africa

"It is important to look at investment opportunities in the financial inclusion sector through a new lens. Many fintechs, institutions will also look for interim support in order to ride over the pandemic slump. Can there be provision for interim funding?"

CEO of South Asian MFI

"Small and new institutions face huge challenges in this fields"

Head of South Asian network of MFIs

"Money is not the issue .... it is capacity"

Division head at TA provider working in South Asia

Protecting the sector's reputation

"Doing good work that is client focused and prioritises independence/self-sufficiency will do that"

CEO of TA provider

"Reputational risk remains at the centre of preoccupation of impact investors as AML/KYC requirements continue to evolve, strengthen and require more attention and resources. Further harmonization could benefit the sector"

Global funder

"Significant - think some predatory fintechs plus aftermath of COVID crisis might cause concerns about reputation"

Europe-based global funder

"This is a multi-dimensional issue that is quite complex to achieve. I believe we can only win some and lose some"

Researcher in Sub-Saharan Africa

Trust was built over a long period and could suddenly be at risk - reputation is foundational to trust"

Director at international network

"Results should speak for themselves"

CEO of funder focused on Sub-Saharan Africa

Increase in the relevance of academic research

"But this research has to be based more on field level data and insights"

Director at South Asian infrastructure organisation

"Most academic research is not or barely relevant for practice. We need to do more about it"

Researcher

"Pragmatic solutions not theory; poor people need drastic solution to alleviate poverty"

Researcher

"This should not be a donor priority. Fixing academic incentives is beyond the scope of development aid"

Head of global research body

"Research is critical but perhaps [should be] less academic"

Director at global network of MFIs

Looking to the Horizon:
New Areas of Focus in Financial Inclusion

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

"Tomorrow never knows"

Lennon & McCartney

Overall Rankings

Figure 7

New Areas of Focus – Overall Rankings

Rank	Area of Focus	NAF Index score	2019 rank
1	Small and medium enterprise (SME) finance	26.5	3
2	Climate change adaptation/mitigation	22.0	2
3	Agri-finance	20.7	1
4	Financial literacy (incl. digital literacy)	19.7	NEW
5	Green finance	16.6	10
6	Services for women	16.0	6
7	Finance for access to education	14.5	9
8	Services for youth	13.1	5
9	Health care	12.0	NEW
10	Finance for refugees/displaced populations	11.0	4
11	Water, sanitation and hygiene (WASH)	11.0	13
12	Disaster resilience	9.9	11
13	Housing	9.2	8
14	Services for the urban poor	8.9	12
15	Energy	6.6	7
16	Fair trade	3.3	14

The NAF Index

The second mandatory part of the survey moves from looking at the present importance of trends (the importance of trends currently defining the sector and how significant they are to achieving agreed goals) to the prospects for areas of focus beyond the core provision of 'core' microfinance products in the medium-long term horizon - *Which of the following areas are likely to see the most significant developments in the financial inclusion sector in the next 5-10 years?*

Respondents were therefore asked to consider a list of 16 New Areas of Focus (revised since the last time this section was included) and as before, to choose their top five in ranked order. These ranks were then inverted into a weighted score (a 1st rank was worth 5 points; a 4th rank was worth 2) to generate a NAF Index score that shows how positively respondents believe this Area of Focus will be significant in the future.

The rankings, seen in Figure 7, are revealing. The top 3 are the same as in both 2018 and 2019 (2020 was a special edition and didn't include this), and there are increases in the ranking for **Green finance** and decreases for **Housing** and **Energy**.

But the **variance between scores is much lower than last time**, with many more Areas of Focus bunched closely together, unlike last time when the top 3 were far ahead of the rest of the pack. One interpretation of this, supported by the tone and distribution of the qualitative responses that accompany this section, is it reflects an increasing complexity, uncertainty and change within the financial inclusion sector, with more areas of focus for stakeholders to devote resources to, and which are increasingly inter-related, something which a list of discrete Areas of Focus is perhaps ill-suited to fully capture. Finally, the scoring in this section (unlike in the earlier Trends section, where respondents can give any score they wish to each of the 20 Trends) is zero-sum, which serves to dilute the significance of more closely-related areas.

There are some interesting differences between respondent groups. Figure 8 shows the NAF Index scores for four selected Areas of Focus with large differences by organisation type – and compared to that Area of Focus' overall score.

Figure 8

Selected NAF Index Scores by Organisation Type

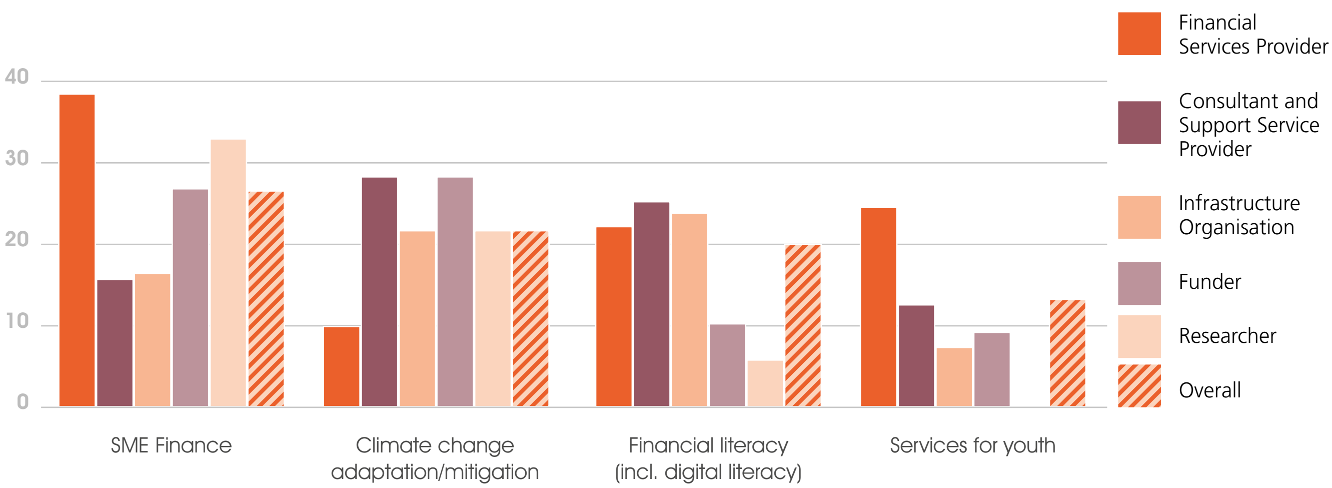


Figure 8 shows that:

- FSPs are extremely positive on **SME finance**, the highest score of any area. Consultants and infrastructure organisations are much less so.
- By contrast, FSPs consider **Climate change adaptation/mitigation** much less important in the future than other respondent groups, especially consultants and funders.
- Funders and researchers are much less positive about the future significance of **Financial literacy** than the other groups.
- And **Services for youth** are of strong interest to FSPs – and exactly zero interest to researchers, not one of whom gave this a single score.

The Top Three New Areas of Focus: What Respondents Wrote

1. SME Finance

2nd in 2018, 3rd in 2019 and in 1st place this time by a small margin, SME finance has consistently shown to be among the most dynamic and important growth areas in the coming years, a consequence of a bifurcation of the sector between socially-focused providers and supporters seeking outreach to vulnerable and poorer segments and more formal institutions like banks serving larger companies – leaving the proverbial 'missing middle' under-served.

There are perennial definitional problems here. As noted in 2019, "an SME in one market is a micro-business in another". But respondents believe that adjusting for national income and wealth there are pervasive gaps everywhere, the "*missed class in financing by MFIs and banks, however this sector is [a] microeconomy catalyst*", according to the SPM Section Head at an MFI in Sub-Saharan Africa. Serving this missed class is *"a logical area for expansion in many MFIs and very significant for developing economies*", says a Europe-based funder. Indeed, SMEs are responsible for "*the creation of the added value that would [increase] the wealth of a country*", says an MFI director in East Africa.

It's a future area of focus because respondents believe it's both hugely important and will become yet more so: "*SME finance assumes importance as people are graduating from livelihood finance … [it is] necessary to enhance incomes*, says the head of an Asian MFI network. For MFIs, serving SMEs is critical, otherwise *"their client base might be left out in the age of global digitization*", says the Managing Director of a TA provider working in MENA.

But better reaching under-served SMEs won't just happen by itself, it needs concerted effort and strategic vision, and the pandemic, with its devastating effects on SMEs across the low-income world has made it more important than ever: "*SME finance will require much attention in the medium term to build economic recovery paths at a global scale and community resilience after the devastating shocks to the global economy*", says a Senior Policy Manager at a global infrastructure organisation. And furthermore, despite the founding claims of microfinance, not everyone is an entrepreneur-in-waiting; serving SMEs well needs more than access to finance. The Managing Director of a support provider in Sub-Saharan Africa puts it well: "*There are still too few links between entrepreneurial coaching/business development services on the one hand and access to finance/financial inclusion on the other…the two are complementary...*"

2. Climate Change Adaptation/Mitigation

Climate change adaptation/mitigation, the topic of the European Microfinance Award in 2019, was 3rd in 2018, 2nd in 2019 and 2nd once again now. Arguably, it would be the top New Area of Focus but for the fact that the scoring in this section is zero-sum (respondents only have 5 votes to give) and this Area of Focus overlaps significantly with energy, agri-finance, green finance, disaster resilience and even WASH – an observation made by several respondents.

Nevertheless, the tone of the comments provided by respondents shows that while the pandemic has sucked up so much attention and resources over the last year, Covid will eventually pass (or at least become manageably endemic) – but meeting the challenge of climate change remains the *sine qua non* for everyone working in financial inclusion. Respondents variously point to "*increasing natural disasters*", "*climate stresses*", "*access to food security*" as the underpinnings of this long-term challenge. There will need to be expansion of new innovations: Davide Forcella, a researcher and head of green inclusive finance and business development at a specialised TA provider argues for "*a focus on climate change adaptation through implementation and expansion of Nature-Based Solutions and Climate Smart Technologies*". But an iterative or piecemeal approach will not be enough; there must be wholesale transformation ahead, and perhaps there have been insights from dealing with the Covid crisis that will be transferable. A Data Specialist at a global infrastructure organisation writes "*the world has changed, and the pandemic has also highlighted the huge actions needed to transform the economic and financial paradigm into a greener and more adaptive one".*

3. Agri-finance

Agri-finance is in third spot, down from first place in the last two surveys, including in 2019 when it was a runaway top choice. This time, many of the scores and comments headed elsewhere, to green finance and climate change – and possibly because of a perception that the impact of the pandemic has been higher in urban than rural areas.

Whatever the evidence for that, respondents increasingly see agri-finance, in an era of new obstacles to trade and movement of goods and people, through the prism of *food security*: agri-finance is "*a base for food sustainability and the maintenance of national sovereignty – and needs [support] to feed the fasting growing populations*", writes Kassahun Gonfa, the Marketing and SPM Section Head at an Ethiopian MFI. There has to be *"continuing credit support to agriculture and allied activities to ensure food security of growing populations"*, says P. Satish, Executive Director of a South Asian association. Addressing food insecurity, closely intertwined with climate and disaster resilience, means the strengthening of value chains, according to several respondents, and must be approached in parallel with "*client resilience, climate change adaptation and biodiversity conservation*", according to a Europe-based TA provider.

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

Financial literacy (incl. digital literacy)

"Low-income workers often lack education, can better work the system if they understand its mechanics"

Advisor at global consultancy

"Financial literacy and digital literacy are among the most important priorities in a financial environment that is driven to digitization at enormous speed given the trends forced by the pandemic"

Data Specialist at global infrastructure organisation

"Unless financial literacy (incl. digital) is made widespread, people, especially women, will not benefit from financial inclusion"

Executive Director at South Asian network

Green finance

"Green finance includes agricultural finance as a [top] priority for the preservation of our globe and for CSR"

Director of FSP in Sub-Saharan Africa

"With focus on how to support the delivery of functioning channels for green and climate finance to FSPs and their clients"

Green finance software provider

Services for women

"Tailored to women's needs - can also be accessible to men. We do not need "pink" products"

Senior Financial Sector Specialist at global infrastructure organisation

"Women have been the group most affected by the pandemic. Policies should focus on the social and economic recovery of millions of women who have experienced loss of jobs and social and personal disruptions. Policies should focus to recover the economic and social empowerment of women, including the financial aspect"

Data Manager at infrastructure organisation

"Covid-19 has hit women and girls particularly hard. at least 47 million more women and girls will fall below the poverty line in 2021. There will be at least 247 million women living in extreme poverty this year. The pandemic's economic wreckage will also last longer for women as they are disproportionately represented in the informal or service sector and are less likely to qualify for government relief services"

Europe-based global funder

Finance for access to education

"Education holds the best promise for finding work that takes people out of poverty"

TA advisor

"Together with support to youth"

Global funder

Services for youth

"Growing youth populations in many areas where poverty is high - difficult to work out how to provide opportunities"

Europe-based global funder

"Youth are a productive class but, get less attention and overlooked in the economy and most of them are unemployed class"

Marketing and Social Performance Management Section Head at East African MFI

"Especially the possibility of promoting the future of entrepreneurship"

Deputy CEO at East African MFI

Health care

"Responsible finance for health care, including insurance products, could help to stabilize incomes"

Global support service provider

Finance for refugees/displaced populations

"Forcibly displaced persons are among the more vulnerable of the vulnerable groups in many different regions. There is a need to find ways to integrate them into their host society, starting with financial services. There is a need to keep developing new policies to help them build resilience"

Policy Manager at infrastructure organisation

Water, sanitation and hygiene (WASH)

"As COVID and other pandemics persist, it is crucial to extend WASH services to underserved communities"

Support service provider working globally

"A crucial sector influencing all SDG goals"

Secretary at global funder

"Only 6% of the USD 221 billion impact assets under management as reported by the GIIN are allocated to the WASH sector. Historically, the core source of financing has been driven by government entities, public Water Services Providers, donors, grants and concessionary debt. Our impact-first equity fund will invest in businesses to accelerate access to safe drinking water in Africa, Asia and Latin America"

Global funder

Disaster resilience

"Building up resilience to natural and human - made disasters is needed as these have the potential to disrupt lives and livelihoods"

Head of Asian network of FSPs

"General disaster resilience but also resilience to climate-change related disasters"

Access to Finance Specialist at global funder

"Including climate disasters"

Europe-based associate researcher

Housing

"Informal workers living in informal settlements remain under-served for home improvement lending and assistance. The potential positive impacts from investing in housing in these communities are massive - employment, wealth creation, health, social stability... home improvement lending for informal earners is under-developed in most countries. Requires coordination of financing, materials, project management"

Global support service provider

Services for the urban poor

"Proportion of urban poor is fast growing, unless this segment is supported for livelihoods and other support services, it is a recipe for social strife"

Head of South Asian infrastructure organisation

Navigating out of Crisis: Covid-19 and the Future of Financial Inclusion

Emerging challenges – and how to address them…

What are the most significant challenges facing the financial inclusion sector today, and what will stakeholders need to do to meet them?

"If things start happening, don't worry, don't stew, just go right along and you'll start happening too."

Dr. Seuss

One challenge looms above all others but comprises many parts, reflecting the staggering complexity and breadth of the pandemic crisis and the inter-twined efforts it will take to address it. Covid-19 has had implications on clients' cash flows and financial needs, institutional liquidity, regulation, sector resilience and reputation, human resources – the list is long. Most respondents' comments were related one way or another to the challenges brought about by the pandemic, but some are crisis-specific; others are underlying, long-standing challenges made more difficult because of the past year.

Some respondents wanted to re-emphasise the **importance of financial inclusion**. *"The sector remains the solution to fight poverty and support the local economy...the covid19 pandemic has weakened the economic situation and the level of social status of everyone as all activity was slowed down or even stopped"*, writes a director of an FSP in South-East Africa. Several wanted to keep the focus on the impact on clients, and the fact that this will be an enduring crisis and require patience and grit to overcome. A global funder notes that *"the COVID pandemic has led to increased poverty and end-clients vulnerability. Despite no systemic failure during 2020, this crisis will have a long tail, and continuous support from private funders will be crucial to close the financial inclusion gap"*.

There is widespread concern about how the pandemic will **exacerbate poverty**, dropping millions of recently prosperous but precarious households into destitution. *"We have not seen the final impact on people and FSPs yet"*, writes Gerhard Coetzee, lead specialist at a global infrastructure organisation. *"I am perturbed about [growing] food insecurity…we have to focus more role players on the plight of the poor, especially women. We have to do a better job to leverage the role technology can play to solve some of the challenges, both at the level of the poor and the institutions that serve them"*. There is a risk of fatigue or parochialism as well. *"Many international donors are now more focused on their own countries"*, he adds. *"It is of utmost importance that they also turn their attention back to the least developed areas, fragile countries, and fragile people."*

It's important to remember too that, whatever the gains in vaccination and treatment in developed countries, the pandemic still rages unchecked (and massively under-counted) through much of the low-income world. Vijay Kumar Gurung, Head of Small and Micro Banking at a South Asian MFI discussed the health impact on his MFI's clients and loved ones, and the "*situation of uncertainty*", that continues because of repeated lockdowns. *"Our members had limited capital and savings [already] and it has been used to cover expenses for last year's lockdowns, and [a new] lockdown has been imposed and the future looks bleak."* The only way out, he argues, is rapid acceleration of vaccination. "*Development agencies and stakeholders should first prioritise the vaccination drive for the poor and vulnerable groups".*

Elsewhere in South Asia, the forecast is also bleak. "*The economic recession, food inflation and reduced incomes of low-income households have had compounding effects*", says Zainab Saeed, Head of Research and Development at an NGO-MFI. "*Low-income households have become worse off, and many have resorted to regressive coping mechanisms such as reducing the quality and quantity of food, removing children from school, sending children for domestic work, and selling off productive assets...[causing] reduced incomes…[and] ability to repay loans".* In the short term this will reduce portfolio quality for financial institutions, but the compounding effect is that *"in the long term these will result in these loan clients becoming delinquent or written off which will negatively impact their creditworthiness and ability to [access] the formal financial sector".*

Many respondents, complementing the ideas presented in the Trends section of this paper, observed the adverse **effect the pandemic has had on women** and its potential to set back gender equality and empowerment by years. A South Asian practitioner argues that Covid and its mitigation measures have compounded existing challenges in realizing the goal of full financial inclusion: *"The gendered nature of the impact of Covid, whereby women at all levels have been affected disproportionately, has exacerbated challenges in reaching women".* And "*women have been especially hit by this pandemic*", writes a respondent from an international network, *"and attention [must] be set to their economic and social reintegration, financial inclusion being an important factor [to] accelerate their recovery process".* What can be done to address this? *"A specific approach, with adapted financing, is still necessary and [demands] strong strategic political will"*, argues a global funder. And "*lower interest rates*", according to the director of a support service provider in South America. "*Inclusion is impossible with interest rates of 80%."*

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Resilience is unsurprisingly a recurring theme in this section, and across the entire survey – resilience of clients and their families and livelihoods; resilience of institutions; and **resilience of the sector as a whole**. Ensuring and strengthening it requires control of the virus itself, with widespread vaccination rollout and uptake replacing the economic devastation of lockdowns, but also wholesale, systemic measures to prevent a future global crisis wreaking the same destruction. This starts, according to Luis Trevino, a Policy Manager at a global network of regulators, with guaranteeing "*the stability and resilience of the financial systems",* only after which can the sector ensure the resilience of the millions of vulnerable individuals. "*Financial policymakers need to keep guaranteeing the stability of the financial system and the survival of vulnerable financial markets that have been heavily affected…the improvement of financial infrastructure, the adjustment of financial recovery policies, and the transformation of payment systems, digital infrastructures, and consumer protection rules are key factors to enable a swifter financial recovery after the health crisis stops*", he adds.

A respondent from a ratings agency further expands on the tension between systemic, institutional and client-level resilience, and what this means in an increasingly digitalised post-Covid sector: "*The most significant challenge the financial inclusion sector is facing today is to be resilient so its clients [can be] resilient too. Resilience, in this sense, refers to building robust but also flexible institutional structures, to be able to operate adequately, even when the business continuity plan must be implemented. This requires digitalised processes, but perhaps more importantly, clear and well-disseminated workflows for each process, so that the staff are better supported to work from remote or more autonomously, when needed."*

And sector resilience may be strengthened by macro-level policies but concurrently restrained at a more micro level. Olga Biosca, a researcher, believes that *"payment moratoria due to COVID and repayment plans for clients are affecting the economic resilience of the sector".* A practitioner in South Asia also notes the negative consequences of long-term downstream moratoria and that "[*deteriorating] portfolio quality of FIs (and subsequent write-offs from retained equity) will impact their ability to raise debt for on-lending and significantly reduce [FSPs'] ability to service the underserved segments"*.

Whatever this involves, it will require **better coordination and partnerships** between governments and private actors. Adegoke Adegbami, CEO of an MFI in West Africa outlines the counter-productive KYC requirements that are incompatible with FSPs desire to serve new and excluded clients in a Covid-safe way, citing *"a lack of congruence in the efforts of stakeholders…a number of actions and efforts of government and regulators work at cross purposes".* The head of a Sub-Saharan African network of MFIs argues this is urgent: "*the State and the supervisory/regulatory authorities should exchange closely with the institutions to avoid the collapse of the economy of each country".*

The urgent need for **governments to play a bigger role** in strengthening the resilience of clients and institutions is a common theme among respondents. The head of a network of MFIs in South Asia advocates a much more interventionist role. "*The most significant challenge is the erosion of employment, livelihoods and incomes of vast sections of populations [means that] financial services including provision of credit is stressful to the institutions as well as the recipients. Governments [must] step in and provide social security safety nets to people, including in the form of cash transfers. Central banks should ensure that sufficient liquidity is available in the financial sector to meet the credit needs of the poorest, especially with the localised and small institutions which are closest to the poor. Risk mitigation mechanisms, especially insurance at an affordable cost, needs to be set up by the insurance regulators."*

"The "long tail" of covid, even if it doesn't impact everything, does cast a shadow of risk perception over all. This has a knock-on effect on investors"

Europe-based global funder

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Many respondents discussed the **products and services** needed to meet this resilience challenge. As ever, much of this is focused on **digital financial services**. We must *enable innovation in the supply of financial services driven by emerging new business models, data, technology etc."*, writes the CEO of a funder working in Sub-Saharan Africa. "*[We must] create funding mechanisms (grant, debt, equity and other financial products) to support these innovations for mid-stage emerging players and MSMEs that have a tried and tested business model in the provision of financial products and services".* In fact, according to Shiela Guanzon, Operations Manager at a South East Asian MFI, "*face-to-face interventions will still be limited in the next few years…business continuity in this time will be very challenging without digitization… companies must be willing to innovate and invest"*.

But as ever, not everyone is quite so positive. A global funder argues that "*the digital transition…creates more problems at the beginning before it is really effective and relevant. It must be carried out with significant support from all the players and with appropriate financial resources (subsidies + investment)"*, adding that this risks being accompanied by "*the disappearance of traditional/more social players, and the emergence of fintechs more concerned with an economic model that is difficult to achieve without high rates, consumer loans, etc."*

"The challenge is balancing between outreach and sustainability. Stakeholders will need to fund digital financial services targeting low-income people, for instance mobile financial services. The challenge with digital financial services is managing credit risk"

Credit Manager at MFI in East Africa

But not all the products and services needed are about digital channels alone. Respondents mentioned several others, from "*expansion of affordable **housing** [and]increased appropriate housing finance provision, recognition as an attractive asset class [with a] facilitating supportive ecosystem*" (according to a global funder), "***financial literacy** [and] lack of formal ID*" (according to the CEO of a West African MFI); and *"promoting **agricultural enterprises**, especially in developing countries, in order to enhance the development of the country"*, according to Meltine Rasoanandrasana, Deputy Director of a South-East African MFI, for which MFIs "*should seek mechanisms to reduce credit risks and expand services"*, according to Fernando Yepez, a consultant in South America.

Several respondents, building on the significant attention given to this issue in the New Areas of Focus section, discussed the need for services specifically designed for **SME**s. Researcher Davide Castellani writes *"enterprises with a size between micro and small tend to be the most financially excluded (the so-called missing "middle"). Should these enterprises be served by MFIs (upscaling) or by banks (downscaling)?"*

And of course, **climate change** (and its related issues of biodiversity loss and natural disasters) was widely cited as an overriding challenge. It has "*impacts on the capacity of FSPs to achieve their financial and social objectives: increased credit risks, reduced client capacity and resources and hence social and economic exclusion"*, says Davide Forcella, Head of Green Inclusive Finance at a TA provider. "S*takeholders should promote the integration of climate and biodiversity risks management into the financial and social risks assessment and management and support the generation and strengthening of capacity for FSPs to cope with these challenges. This should include a client focus, aiming to strengthen their resiliency with also the promotion of green practices and technologies"*, he writes.

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These are enormous challenges of dizzying complexity, and the rich responses provided could produce a paper on each. But if there is a core concern among the *Compass* respondents, it continually comes back to the **threat to clients**, exacerbated by the pandemic, and **how stakeholders can adapt** to better respond to these challenges.

The threats themselves are listed by respondents, like in previous *Compass* publications. They range from "*high-interest consumer lending, which while for local institutions or informal mechanisms [would] at least [keep] the interest in the region, in the case of foreign shareholders, profits are extracted from the country/region"* (according to a Financial Services Specialist at a European NGO), to the continued "*focus on credit instead of savings mobilisation*" (according to a European rater – and echoed by many others).

"Too much emphasis on formal sector solutions and defining financial inclusion as participating as clients in regulated financial institutions. Insufficient awareness that the costs and the rigidities of formal finance don't often suit clients, tend to suck capital out of rural economies and provide low returns"

CEO of Support service provider

And even with the best will in the world, how can stakeholders make the right decisions to facilitate changes to address these challenges? **How to be useful and stay relevant in a sector in flux?** For some respondents, their own challenge is heading off the threat of obsolescence, especially from what some argue is faddism, the "*new fashion sector that everyone speaks about, "the impact (investing) sector*, as one infrastructural organisation respondent puts it, adding "*I have the feeling that the impact (investing) sector looks at microfinance as outdated…'the ugly sister' and this might push away investors, funding and other opportunities, undermining the potential of our sector. The role of infrastructure organisations [should be] to make sure that the relevance of the work of our sector is known and understood broadly"*.

This is not an isolated concern – and goes beyond traditional players' fears of decreasing relevance; it has knock-on effects all the way down to clients. A European fund manager warns of "*greenwashing by investors and local real economy banks…we see surplus liquidity, both (semi-)public and private money, searching for investable sustainable assets. The sector should be careful never to (unconsciously) give in on its socially responsible principles"*. And a Europe-based funder points to "*the hype around other ESG topics and a tendency to market financial inclusion as a "passé" impact investing topic*", which risks "*reducing capital flows, at least from international investors…perhaps this will have a good effect of generating more local/regional investment flows, but hard to say"*.

"Another challenge is the emergence of non-financial inclusion FSPs. The industry still does not engage enough with the Alibabas, eBays, and it risks being left in the dust"

Global funder

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What answers are there to this woven tapestry of challenges? How do stakeholders protect existing clients while increasing outreach to new ones? How do they ensure the resilience of traditional players while ensuring a conducive environment for innovation by new ones? Even if simple answers were possible, they'd be outside the scope of this paper, which is to just report what others think and say. To that end, here are four final contributions from four respondents, each with varied but especially insightful perspectives on what the sector must do as it navigates beyond the pandemic to a post-Covid future.

"Micro-lenders in many countries are entrenched in what at one time was a revolutionary business model, providing short-term working capital loans to micro-entrepreneurs. This 20th-century model of microfinance is important in stabilizing household incomes, but it does not move people out of poverty…and informality of employment is holding stable in many middle- and low-income countries. It is important now that the financial inclusion sector recognise the persistence of informal employment, and work to better understand the economics of these households, to innovate products and services that help them to build wealth"

US-based TA provider working globally

"FIs need to really invest in R&D to create contextualized products to address women's needs, meet the consumption-smoothing needs of low-income households, the post-Covid recapitalization of businesses, and client-centric ways to undertake rescheduling of loans during [inevitable] recurring waves of infection. At the level of policy, governments need to enhance their vaccination efforts and look at conditional cash transfers for the most vulnerable and/or most affected persons. Funders need to re-evaluate their requirements and due-diligence mechanisms to account of the impact of Covid"

Practitioner in South Asia

"Inclusive finance is no longer a goal in and of itself. It must be embedded into higher development priorities. The challenge for the industry is how to speak to and be relevant to other sectors. There is a certain arrogance that the inclusive finance industry has acquired, and this is preventing stakeholders from being relevant to other sectors, such as agriculture, education, and health"

Managing Director of global research body

"Facilitate access of individuals to other financial service providers who can provide longer-term, lower interest loans that are needed by the entrepreneurial minority and seek to change the fundamental character of their enterprise investments away from income-generation"

CEO of TA Provider working in Sub-Saharan Africa

Role shifts and lessons learned

How has your role, individually or as an institution, changed since the beginning of the Covid-19 pandemic? What lessons have you (or your institution) learned from it?

"Everyone thinks of changing the world, but no one thinks of changing himself."

Tolstoy

How quickly things can change. Almost no part of human life or industry has been unaffected by the pandemic, and the roles that financial inclusion stakeholders play has been no different. FSPs have become *de facto* relief organisations and health clinics. Investors have put aside competition in favour of collaborative means for shared ends. TA providers have had to return to the drawing-board – re-thinking how to provide meaningful support to FSPs and clients in a world where travel is impossible. Everyone has had to adapt to play a useful role in understanding and mitigating the challenges being faced, and lessons from this time will endure long beyond Covid-19. For some, their roles will never be the same again.

The most obvious difference has been in the **restrictions on travel** and the transfer of a lot of **communication and support to remote models.** This has of course had its benefits. *"We moved to an entirely digital platform which allowed us to become more globally inclusive both from a speaker and audience standpoint"*, writes Rod Dubitsky, Executive Director of a UK-based forum. Hugh Allen, CEO of a support provider writes *"I run the SAVIX MIS and website…we have switched successfully to online training, for which I now have a preference"*, although "*our work in promoting VSLAs and, in particular, federations of VSLAs (as an alternative to linkage to the formal sector) has been inhibited, because face-to-face training (and, in particular advocacy) are the most effective way of accelerating acceptance of this approach as a viable alternative".*

In most cases, it's just been about **adapting out of necessity.** A division head at a Europe-based consultancy working worldwide observes the difficulty of communication and dialogue in virtual meetings but distinguishes between 'old' partners (with whom this works "*more or less well*", but which is "*very difficult with new partners*". She advises all others to adapt for a permanently changed context. "*Develop virtual tools and continue to use them, whenever appropriate, even after the crisis…this is anyway [how] the young generation will go [plus] it limits the ecological footprint. The importance of (real) digitization - products, procedures, working with people ... the process is just at the beginning".* Micol Guarneri, an independent consultant and former rater says travel restrictions have led to the need to "*leverage more the presence of local consultants and part of the time I would have spent on-site has been used to build capacity at local level, [so] that is something good…however [it] take lots more time and energy".*

"Much less traveling... and missing that. [There is] reduced spirit, as direct contact with target groups is missing. Remote work cannot provide the same insights as being on the ground"

Programme Director at international NGO

Is remote working via virtual meetings the 'new normal'? Probably not – there will be developments that will stay and others that will not. As Britt Gwinner, advisor at a global support service provider says, "*at some point, it will be constructive and valuable to travel again. In the future, I see a more efficient combination of remote work and travel emerging for many who work in international occupations".*

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One of the most impressive developments of the pandemic, according to many respondents, was a close **coordination and collaboration among funders**, putting aside competition to instead see the overarching priority of putting clients and institutions first.

Of course, these motives are not purely altruistic. The collapse of the sector would be catastrophic for investors who claim social *bona fides*. And so too would be the collapse of their own investees. Nevertheless, respondents – investors themselves and others – believe this is an opportunity for collective action which must outlast the current crisis.

The coordination role investors have had to play is mentioned by several respondents, who point to several factors. A Director for Development of Inclusive Finance at a Europe-based global funder says that *"more than ever, we have seen the relevance and necessity of having a coordinated approach and working in synergy. It is desirable that these concerted approaches continue beyond the crisis"*, adding that "*the ability to have accurate and timely information has proven to be necessary to be able to be responsive and agile in the best way. Here again, the use of concerted reporting proved to be relevant and very useful".*

A Head of Risk at a different funder says "*I think what has been very impressive is the degree of cooperation between MIVs. The Grameen Pledge has shown the significance of cooperation between players in the sector. I hope this continues in the future. From our side, the institution moved from investment to risk management perspective to an investment perspective again. This yoyoing highlighted the need for flexibility and innovation internally".*

Beyond just the emergency collaboration on moratoria, investors see their **roles as having expanded**. According to Tim Crijns, a Europe-based fund manager, "*our role and responsibilities as an active impact investor actually increased…we increased the interaction with our investees, to understand their situation and support them where possible (e.g. by restructurings, in cooperation with other investors)".* Referring to the most visible example of coordination between MIVs, he points to his institution's leading role in cooperation with other international investors in the Memorandum of Understanding on Coordination among MIVs in response to Covid 19 and the Pledge on key principles to protect microfinance institutions and their clients in the COVID-19 crisis, *"both representing a major step in ensuring that investors can provide the most effective and coordinated support possible."*

This is echoed by Noémie Renier, Head of Debt for Financial Institutions at a global funder. "*MIVs have played a critical role in ensuring stability of funding in the sector, preventing liquidity crunch and supporting sector resilience"*, she writes. "*While digital tools have allowed us to maintain minimum and decent lines of communication and relationship with our partners, strong customer centricity and understanding have been key drivers of business continuity at all levels"*.

However, this focus on crisis response comes at a cost. A European funder bemoans that "*new products have been put on hold due to fears of covid impact on potential investees. It has been difficult to get a clear picture of the reality on the ground and what risk that represents for investors".* And besides – it's one thing to expect collaboration in facing a shared risk; quite another once things get back to normal. "*The sector can cooperate*", writes Jurgen Hammer, of a global SPM body, "*but it needs pressure to do so. During the [peak] crisis phase, under the pressure of the pure size of the crisis, investor cooperation was excellent, but this momentum needs to be maintained".*

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For many stakeholders, the crisis has required new focus on making (or understanding) **new policy or regulations**, or lobbying to ensure that, in the chaos and confusion of a rapidly evolving environment, there aren't interventions that end up making a bad situation worse. P. Satish, Executive Director of a network of financial institutions in South Asia writes that, "a *huge effort of ours was in policy advocacy with governments and regulators on a regular basis as the pandemic was unfolding and affecting various sectors of the economy".* What lessons can be drawn from this experience? "*To keep track of field level developments constantly and evolve responses to mitigate them".*

The regulatory responses to this crisis are incredibly diverse, and far beyond the scope of this paper. But some respondents did seek to contextualise what it has all meant. *"Some regulators"*, writes Luis Trevino, Senior Policy Manager in Financial Inclusion Data at a network of regulators, *"have responded quickly to the changes and have been able to adapt the regulations and policies to address different financial needs, including liquidity, resilience of the system and of particular economic sectors, and to allow for a faster transformation of their financial infrastructures, to the changes in policies and new reforms to support the digital transformation of their financial sectors".* This will hopefully lead to "*faster policy transformations impacting positively the financial inclusion landscape in the medium term"*, he adds, cautioning that there is significant concern regarding "*traditional non-banking financial sectors, such as credit unions and [smaller] MFIs"*, because of "*liquidity constraints, higher risk, and lack of funding"* in many jurisdictions. These institutions are critical for financial inclusion and *"there is a need to find mechanisms to guarantee the resilience of their markets in the future"*.

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As much as the events of the past year have upended the roles of consultants, funders, researchers and others within the broader ecosystem, it has surely been most significant for the **financial services providers** themselves. They have had to communicate with, and help, struggling clients, protect their staff, liaise and negotiate with funders, understand and implement fast-changing political or regulatory requirements, implement sanitation protocols – all alongside the usual running and reporting of a financial institution.

Several FSP respondents had stirring and harrowing tales to tell. The national director of an MFI in South-East Africa tells of how the crisis focused priorities to the most basic: "*keeping our heads above water was the main mission…to have zero deaths among the staff and contain repayments and disbursements despite the shock where everything is blocked because of sanitary measure and lockdown*". Taiwo Joda, CEO of an MFI in West Africa says that as an institution, their role was "*to keep so close to our clients to educate them and provide some [support] – moratoria, interest rate reductions [but also] food packages and consumables.*" Shiela Guanzon, a General Operations Manager at an MFI in South East Asia describes a sudden shift, not unprecedented in a region beset by increasingly severe typhoons, to a relief or aid role: "*Our institution became frontline in providing the needs of our clients…for the poorer communities where hospitalization and medical checkup is not accessible, our institution was able to provide healthcare services for them and their family members."*

Similar tales emerge from South-East Africa, where the Director General of an MFI explains well the daunting breadth of responsibilities that come with working with vulnerable groups during a pandemic, a role which includes "*to reassure and protect the staff in the face of the pandemic (communication, distribution of medication, distribution of means of protection (disinfectant gel, mouthwash, air purifier, etc.); strengthen staff capacity in telecommuting and remote client management; and develop and innovate financial services through digitalization (design of digitization projects)*". But this last task has had ancillary benefits, he says. "*Among our lessons learned is that the harder the pandemic hit, the easier it became to sensitize clients to the use of digital channels (mobile banking, third-party agent network, ATMs, etc.)*"

"People are more resilient than we think"

Independent consultant and researcher

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The **pandemic as digitisation accelerant** is a prevailing theme among respondents, especially FSPs. They ranged from positive outcomes on efficiency "*we have sought to improve communication by using technology as an ally…to avoid unnecessary travel costs by making the MFI more efficient*", according to Fernando Yepez, a consultant in South America, and communication "*we learnt the need to appreciate the use of digital banking/channels for our business as we relied heavily on it during lockdown…also appreciate the use of teleconferencing as the new medium of meeting and communicating with stakeholders - staff, clients etc.*", according to a CEO in Sub-Saharan Africa.

Adegoke Adegbami, CEO of a bank in West Africa explains the considerable investment his institution has made in digital financial services "*without physical interaction*" and that "*so much can be done with the deployment of technology in a less expensive and more efficient manner…[but] we also learnt that technology alone cannot transform. More investment must be directed into the transformation of the people and culture of the organization*".

Likewise, others emphasised that, just as was true before the pandemic, digitisation is not a panacea, nor is it equally appropriate or viable in all contexts. As Jose Garibay, director of a support service provider in South America observes, "*financial companies may see their margins drop but don't change their expenses on obsolete technology, [while] others create apps without customer training and end up with [large] overhead budgets*".

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Several respondents described **other ways their roles have had to evolve** during the pandemic, and the **traits** they feel have been most important in such evolutions. Flexibility and responsiveness have been critical, of course. Providers have naturally had to reschedule loans, *"which has required a change in not just years of mindset on credit behaviour but also necessitated changes in IT systems, new kinds of staff training, and education and awareness for clients*", writes Zainab Saeed, Head of R&D at a South Asian FSP, but also "*a renewed emphasis on relief from economic duress via extending loans for consumption smoothing and recapitalization of businesses*". This need for institutional agility has also meant *"the need for business intelligence and reporting to view evidence for decision-making has also been felt at a heightened level"*.

"The pandemic has reaffirmed the lesson that microcredit is [only] one part of the solution, and that financial institutions need to offer an array of products and services to meet the needs of their borrowers"

R&D head at South Asian MFI

But the responsibility for this doesn't just fall on senior management or branch staff. Several respondents observed the key role board and other governance structures have had to play to make and then fast-track decisions on a schedule very different to usual strategic planning. A board member at an MFI in Central Asia notes that, "*as a supervisory board, during the pandemic we were forced to be involved in many operational and executive functions*". What did they learn from this? The need for a "*new crisis management structure, the domination of risk management over sales, and a re-focusing from long-term formal business planning to strategic vision + short/medium term planning*".

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For non-FSP respondents – researchers, consultants, TA providers, funders and others – there have been conflicts on **how to intervene without interfering**; a wish to mitigate the impact of the crisis and 'do good', but without always knowing how best to do so (a theme previewed in the special edition Covid-19 *Compass* last year). And a consequence of the past year has been an increase in complexity and uncertainty which can feel overwhelming. Roanna Peat, CFO of a global funder, notes that "*life has become busier, and procedures seem to take longer… the past is no longer an indication of the future… it seems a lot of the data and research produced before the pandemic is no longer that relevant*".

For some, this has meant opportunity. A respondent from a Europe-based infrastructure organisation says "*I believe that our organisation has been very lucky because we might be one of the few that have benefited from COVID. Our proactiveness and all the activities we have undertaken in order to respond to the crisis and support the sector have helped to strengthen our presence, voice and coordination role in the sector*".

Moreover, certain services have never been in higher demand than they are today. Ayako Iba, a Regional Manager at a global ratings agency writes that throughout the pandemic, it became evidence that *"our role as an independent rater is particularly sought, when the perceived level of risk in the sector heightens and both the FSPs and investors have an effective need to monitor the FSPs' performance regularly, with the backdrop of a disaster affecting both parties... [and doing so with] inhibited international travel and communications"*.

But what feels like exponential increase in sector activity may dilute progress and that means being selective, knowing how to say 'no' as well as 'yes'. Mayada El-Zoghbi, Managing Director of a US-based research organisation working globally notes that "*with everything going online, the sector has been overwhelmed with events and competing voices. It is harder and harder to understand what is important. We've tried to serve as a consistent and stable voice, elevating others when needed, to ensure that their voices are not crowded out. But this has meant that we've also had to be more selective*".

And this increased complexity and rate of activity is both a consequence and a cause of greater **partnerships** between different stakeholders. A Senior Financial Sector Specialist at a global infrastructure organisation points to the need to find "*different modus operandi to stay close to the ground and leverage partnerships even more than we were doing before. COVID has demonstrated the relevance of most if not all topics we focus on*".

"Only proximity to partners pays off. Indeed, despite access to general information, the realities of the consequences suffered by FSPs are impossible to perceive outside a relationship of trust. Lessons: learn to discuss more with partners, delay disbursements, accept slower growth or even a contraction in outstandings, and redefine target trajectories. It is possible to do due diligence remotely, meaning less air travel in the future... and better travel optimization"

Investment Officer at European commercial bank working globally

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It's important to remember that Covid-19 is not only a story of economic downturns and liquidity crunches. There is a **human cost,** and in many cases, real human tragedy. The people working in financial institutions have had to bear scarcely imaginable pressures, trying to balance fiduciary and financial duties, protecting staff while serving clients, while following fast-changing rules to negotiating with funders. Several respondents tried to explain just how difficult their jobs have been in the past year or so. From Vijay Kumar Gurung, Head of Small and Retail Banking at a South Asian MFI: *"The situation is really heart-breaking and emotional for me as an individual. I've lost a close relative and a few of my clients who have died from Covid. As an institution, we have limited resources to help our members, but we are trying our best as an organization to provide uninterrupted services so they don't have to suffer due to lack of money in their hands. 'Be prepared for the worst' is the most important lesson we have learned".*

Building back better

What changes (including as a result of the effects of the pandemic) would you most like to see in the financial inclusion sector in the next several years? How can we 'build back better'?

"Let's think the unthinkable, let's do the undoable. Let us prepare to grapple with the ineffable itself – and see if we may not eff it after all."

Douglas Adams

This final section of the survey elicited a remarkably rich and (expectedly, given the subject matter) diverse trove of comments.

Respondents were clear on the importance of the **client at the centre** of a revitalised post-pandemic sector, with *"greater client centricity in lending products" and "more purpose driven with greater client cash flow aligned to repayment flexibility"*, according to an impact banker at a global funder. These clients will need "*more savings*", fewer "*high-interest consumer loans*" and "*alternative models for collateral*", according to a Financial Services Specialist at a European NGO. They will need more than productive credit, which "*is not enough; housing, education, health, etc. are crucial areas where we need to focus our efforts and develop financial products that are viable and help our clients have better lives*", according to a respondent from a European infrastructure organisation.

These products and programs will need **financing**. How? According to Sitara Merchant, CEO of a funder, via "*the creation of funding mechanisms (grant, debt, equity and other financial products) to support innovations for mid-stage emerging players and MSMEs that have a tried and tested business model in the provision of financial products and services and or pay a role in the ecosystem*". Channel investment "*at a large scale into housing and other infrastructure of informal communities*", suggests W. Britt Gwinner, an advisor at a global support provider, "*making it feasible for a poor household to shelter at home safely when the next pandemic or earthquake hits.*"

Develop and strengthen **strategic allegiances between traditional providers and fintech**, argue several respondents, to "*digitise processes, drive technology literacy and outreach and encourage savings habits*", according to Vijay Gurung, from an MFI in South Asia. It means the adoption of new innovations – "*DXP - Digital Experience Platform and AI-backed data-driven decision making*", writes Shams Azad, COO of an MFI in South Asia. In a sense, respondents largely see a case of necessity being the proverbial mother of invention. "*Those people living in remote areas and low-income people…are exposed to additional costs to get financial services…to make them inclusive and reduce transaction costs, digital financial services; mainly mobile and agent banking are the best solution*", writes Bizuayehu Negash, manager of the savings department at an East African MFI, who sees the necessity of pandemic adaptation as a lasting and positive legacy of the past year: "*I am proud to see clients getting financial services digitally at their homes and workplaces*", he says.

"A great opportunity to leapfrog in terms of digitalization has emerged from the crisis – this could be a potential game changer to address the gendered digital divide…most governments across the world have launched some form of cash support/transfers which has necessitated the registration and identity creation of recipients along with registration with a formal financial channel – this could help FIs enhance and deepen financial inclusion. Rescheduling of loans and individualized customized solutions which had to be created and implemented can also be great building blocks for the future as these can be included in program design and implementation"

Research lead at MFI in South Asia

But the relentless march of digital ought not to mean a gung-ho abandonment of the core principles of financial inclusion, but rather **finding an equilibrium**. "*Create a new competitive business model and find the right level of digitization, while preserving the necessary human factors and all the advantages of classical financial inclusion*", writes a respondent from an MFI in Central Asia. What does this look like in practice? According to Olga Biosca, a Europe-based researcher, it involves the "*higher offer and uptake of safe, accessible, immediate, and well-designed digital products – both financial and non-financial services; the working in partnership with other stakeholders in the field to increase the relevance and offer of non-financial services; increasing the impact of digital products through gamification (for example health prevention or financial/digital capability)*".

And others see **digital as a continued threat** – to client protection; to social mission – which the pandemic has not changed. "*I would like to see less fascination with technology, which seems to have sucked the oxygen out of the donor tent, and more with the recognition that informal finance is an under-exploited resource that delivers real benefits, higher returns and, crucially, control to the poorest*", writes Hugh Allen, CEO of a support provider working with savings groups.

"Digital finance is the de facto ideal solution to avoid physical contact and combat remoteness. Nevertheless, this is a risk for non-contact where the level of customers requires a personal and physical approach for any operation"

National Director of microfinance bank in South-East Africa

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One of the most striking changes in the past year or so has been the **coordination and communication** between investors (as outlined at length in the previous section 'Role Shifts and Lessons Learned'). Here, respondents want to ensure that the gains achieved outlast the crisis and herald a new collegiate and collaborative approach.

"*More consultation between different actors and pooling of efforts!*", demands a Director of Inclusive Finance at a global funder. "*Keep up the cooperation between creditors!*" says the head of risk at a (different) global funder. "*…it has made things easier both for MIVs and MFIs!*"

There appears to be consensus that the advantages of making these gains a permanent fixture in the sector rather than just PR-driven ephemera is about moving beyond inter-funder competition (a practice which has caused, or at least exacerbated, some previous market-level crises), but is about ensuring a head-start on crisis response the next time a Covid-level event occurs. Tim Crijns, a Europe-based fund manager, says "*having to start from scratch to create guidelines and agreements during a crisis is intensive for all parties involved…it is important to keep platforms alive to quickly act (not only discuss but also quickly act!) when a new crisis erupts, new trends arrive, or new regulations are issued*".

"In order to build back better, each stakeholder in the sector should understand its role in the wider ecosystem and use that as a starting point to develop products and partnerships that effectively help our clients become more resilient"

Manager at rating agency

There is a real sense among respondents that so many of these challenges and opportunities for the future come back to the central notion of **strengthening client resilience**, without which there can be no resilience of the sector as a whole. This is both pervasive and persuasive, incorporating as it does "*a focus on 'responsible' in financial services – there will be better staff and client loyalty when treated well*", according to a respondent from a SPM organisation, as well as a need for "*more innovation when it comes to social performance measurement, [especially] in less conventional models, such as SME finance and microfinance-plus*", writes a global funder. And the intricate interrelation between client, institutional and sector-wide resilience is well described by P. Satish, Executive Director of a network of institutions in South Asia, who calls for central banks to "*shed their rigid adherence to Basel* [default risk and capital adequacy requirement] *norms*" in order to "*allow institutions the flexibility to afford relief to their affected clients*", adding that "*for the financial inclusion sector, maintaining the livelihoods of their clients should be the principal aim [and] the sector has to build pressure on governments and take up policy advocacy for building up a universal primary health care infrastructure as a public good. Because, as the pandemic has proved, without health services, financial inclusion support can collapse*".

Or put another way, "*the pandemic taught us that no one organisation can survive alone, when the rest of the sector, economy and the social infrastructure are also struggling at the same time*", writes a global rater. If there is a sole takeaway from the first global crisis in an entirely interconnected world, perhaps it is this – that **no single organisation is an island**.

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Amidst the chaos, anxiety, and losses of the pandemic (and with the caveat that the full damage wrought on households and small businesses remains unknown), there are opportunities – and for many respondents, the opportunity is for a **re-think of the entire financial inclusion system**.

This has many components. The sector will need to be "*more demand-oriented, going from the design to the distribution of the products and services*", says Davide Castellani, a Europe-based researcher, adding that "*investors will play an important role in this*". It also involves "*much more focus on the result of access and use of financial services on poor people*", says a senior specialist at an infrastructure organisation. "*We did not learn from the financial crises and the global financial sector remains creating large dividends for 'those who have' and vulnerability for 'those who do not have'". We need to go back to the roots of financial intermediation and get to a sector that works for people - especially women*".

There must be, according to Luis Trevino, a policy manager at a global network of regulators, "*important reforms in the financial infrastructure, especially in the availability of market and data sharing and the formulation of clear regulations to guarantee a prompt transition towards recovery and minimize losses and risk*". Digital transformation reforms will continue and will accelerate in countries that today are amid this transition, he forecasts, leading to "*massive mergers and restructuring of traditional financial sectors will take place*". This is where the sector will be at a crossroads. "*The requirement to follow this up with key consumer protection, cybersecurity and data privacy rules and regulations, as well as financial and digital literacy will be crucial and will gain even more importance*", he adds.

"The definition of 'inclusion' needs to be re-thought or defined in a more subtle and realistic way. It can't solely be defined as having access to a suite of formal services. I would like to see much more a trend towards the establishment of self-managed federations of savings groups as a viable alternative to linkages to formal sector FIs. The advantages are obvious: retention of rural/urban poverty capital, higher net returns on savings and investment, and the development of institutional capability that is far better configured to engage in linkages from a position of strength"

TA provider working in Sub-Saharan Africa

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The responses to this question have elicited a phenomenally ambitious and daunting list of ways the sector should or must evolve – foreseeable given the breadth of the respondent group and the size of the challenges faced. To meet even some of these challenges will require the **right providers to deliver services clients actually need**. But who are they, who can somehow offer efficient, affordable, innovative, cutting-edge financial and non-financial services to all client segments – sustainably, profitably, socially? It's important not to overly dwell on the 'who' and instead focus more on the 'what' and the 'how', argues Mayada El-Zoghbi, Managing Director of a US-based research and infrastructure organisation. The last word in this paper is hers.

"When inclusive finance focuses on specific providers – MFIs or fintechs - it loses sight of what actually matters for low-income people. Ultimately, priorities for inclusive finance have to be what benefits low-income people – and the vehicle by which this service is delivered will need to evolve to the needs of the moment. So if MFIs are not able to deliver services during a pandemic, but digital native institutions can, then stakeholders in this industry need to acknowledge this. At the same time, if digital native providers can't serve low-income consumers, then we also need to shed light on this as well. There will inevitably be winners and losers – and that is normal in any business cycle. Hopefully the best providers that serve the needs of low-income people prevail. We should celebrate this and help the evolution along with clear data, research, and insights on what's actually happening".

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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