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Opportunities and Obstacles to Financial Inclusion

CENTER FOR
FINANCIAL INCLUSION
AT ACCION INTERNATIONAL

Opportunities and Obstacles to Financial Inclusion

Survey Report

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Preface: A Survey to Provoke Dialogue on Financial Inclusion

Financial inclusion has gained growing attention in development circles. Policymakers and central bankers from around the world gather in forums such as the Alliance for Financial Inclusion (AFI) and the G-20's Global Partnership for Financial Inclusion to discuss how to build more financially inclusive economic systems. Meanwhile, the microfinance industry is re-examining its role. Participants in the industry recognize the importance of moving beyond credit to an evolved vision of financial inclusion that promotes access to a range of services. At the same time, developments in Andhra Pradesh and other industry hot spots prompt the industry to revisit its purpose and methods.

A Vision for Full Financial Inclusion

Through its Financial Inclusion 2020 project the Center for Financial Inclusion (CFI) offers a comprehensive vision of the components needed to make *full* financial inclusion a reality:

> *Full financial inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, and rural populations.*

The survey is intended to provoke dialogue about what financial inclusion is and how to achieve it. It identifies the various pieces needed to complete the puzzle, in the confidence that those working toward financial inclusion can together take actions that will substantially reduce financial exclusion by the year 2020.

The Industry Voice

AFI, a member-based organization bringing together regulators from about 80 countries in the global South, published a survey in 2010 which asked its members to discuss the trends and challenges in financial inclusion.[1] The results were interesting and valuable, and they inspired us to find out what providers might say about these same issues. We were also influenced by "Microfinance Banana Skins", which showed how rankings could create a focal point for dialogue.[2]

This survey gauges the views of 301 industry participants from around the world. Respondents are financial service providers, investors, and members of support organizations, with a strong voice from the microfinance sector. The survey is not rigorously scientific. However, the rankings, together with written comments from respondents, provide a deeply illuminating view of the thinking that prevails in the industry. The results should be seen as indicative, rather than conclusive, as is consistent with the survey's primary aim to spark discussion and debate.

Acknowledgements

The authors sincerely thank every person who completed the survey (and the few who attempted but were stymied by technology). We appreciate the valuable insights for interpreting results from our review committee,

1. Alliance for Financial Inclusion, "The 2010 AFI Survey Report on Financial Inclusion Policy in Developing Countries," 2010, www.afi-global.org.
2. David Lascelles and Sam Mendelson, "Microfinance Banana Skins 2011: Losing its Fairy Dust," The CSFI Survey of Microfinance Risk, The Centre for the Study of Financial Innovation, February 2011.

who were kind to volunteer their time, and who are not responsible for any shortcomings: Philip Brown, Alfred Hannig, Kate Lauer, Marten Leijon and Daniel Rozas. Production support from Jonathan Pattee and Carol Siegel was essential for bringing the results to you. Finally, thanks to the generous financial support of ACCION International and Credit Suisse, the Center for Financial Inclusion's founding sponsors, for making the research possible, and to Citi Foundation for supporting the roundtables and presentations that will take the survey's messages forward.

Table 1. Survey Results: Overall Rankings

	OPPORTUNITY		OBSTACLE
1	Financial education (66)	1	Limited financial literacy (57)
2	Expanding the range of products (65)	2	Limited institutional capacity among MFIs (54)
3	Credit bureaus (60)	3	Microfinance's single-product approach (52)
3	Mobile (phone) banking (60)	4	Limited understanding of client needs (52)
5	Client protection regulation (59)	5	Political interference (51)
6	Capacity building for microfinance institutions (55)	6	Lack of credit bureaus (48)
7	Full-inclusion financial institutions (51)	7	Product cost-structures (48)
8	Improved regulation and supervision of microfinance (48)	8	Inadequate regulatory framework for MFIs (46)
9	Correspondent/Agent banking (47)	9	Insufficient infrastructure (44)
10	Improved demand-side information (38)	10	Inadequate client protection (42)
11	Strengthening financial infrastructure for electronic (non-cash) transactions (35)	11	Poor business practices (41)
12	Reaching out to new client groups (34)	12	Costs of building/operating branches (39)
13	Competition (32)	13	Weak legal infrastructure (32)
13	Prudential regulation and supervision (in general) (32)	13	Lack of network cooperation (32)
15	National identification documentation (31)	15	Limited know-how of mainstream providers (28)
15	Mobile (branch) banking (31)	15	Appropriate funding (28)
17	Village savings and loan associations/self-help groups (31)	17	Unsustainable growth (28)
17	Expansion and improvement of microfinance associations (31)	18	Commercially oriented entrants (27)
19	Microfinance transformation (27)	19	Non-business-friendly environment (27)
20	Building investor markets (24)	20	Regulation that lags technology (25)
21	Commercial bank downscaling (22)	21	Financial regulatory priorities (24)
22	Collateral and secured transactions reform (20)	21	Lack of demographic information on the excluded (24)
23	Self-regulation (18)	23	Impact of financial inclusion (23)
24	Matched savings and/or cash transfer schemes (17)	24	Documentation requirements (22)
25	Non-traditional providers (15)	25	Lack of interest by providers and policymakers (22)
26	Linking government transfers to deposit accounts (14)	26	Weak industry voice (20)
26	Product bundling and cross-selling (14)	27	Public mistrust of financial institutions (19)
28	Mandates to provide no-frills bank accounts (12)	28	Client risk (17)
29	State bank reform (9)	29	Negative press image (17)
30	Directed credit/service mandates (4)	30	Transient, migrant, displaced populations (10)

Note: n = 301. Numbers in parentheses indicate the percentage of respondents placing an item in their top ten.

Introduction: Participants Speak About Financial Inclusion and the Provider-Client Gap

This survey reveals participants in the microfinance industry seeking to come to terms with potentially seismic changes. Responses illustrate the change and uncertainty in microfinance today, which arise largely from two trends that are unsettling conventional wisdom in the sector.

- First, as country after country experiences crises of client over-indebtedness, microfinance institutions are facing unprecedented criticism (including self-criticism). The anti-microfinance actions of the state government in Andhra Pradesh have shaken the whole Indian microfinance sector, with aftershocks felt throughout the global industry.
- At the same time, somewhat ironically, financial inclusion is now fashionable. The G-20 has initiated financial inclusion commitments. Central banks and finance ministries throughout the developing world are putting national financial inclusion policies in place.

As a result of the first trend, industry players are questioning prior assumptions about the laser focus on growth and credit that has dominated microfinance. As a result of the second, they are, perhaps for the first time, attempting to define financial inclusion and how it relates to microfinance.

In searching for the way forward, the 301 survey participants represented here reached back towards their starting point – clients. To summarize the survey's main message, we are tempted to revise Bill Clinton's famous campaign slogan and say, "*It's the clients, stupid*."

A return to clients is reflected in several of the top opportunities and obstacles identified in the survey, starting with the items that convincingly topped the chart for both opportunities and obstacles: financial education/lack of financial literacy (Table 1). "The past ten years' emphasis on MFI institutional profit and success has been great for scaling microfinance but has also corresponded with a lack of attention to client needs and measurable client benefits beyond just repeat business," writes Tom Coleman, an investor.

A reading of the top rankings and many survey comments creates the following narrative: For too long, microfinance has been over-focused on a single credit product (obstacle 3). This has placed the industry at risk of political interference (obstacle 5). We must understand the needs of the clients (obstacle 4 and opportunity 10), so that we can expand the product range (opportunity 2), and we need to ensure that clients receive education (opportunity 1) so they have the financial literacy (obstacle 1) to use financial services safely and benefit from them.

At the same time, participants are aware that they do not necessarily know how to meet the needs of clients, ranking capacity building for microfinance institutions as the 2nd obstacle and 6th opportunity.

The recent events in the sector have revealed a chasm between providers and clients. Only a few years ago, microfinance practitioners were sure that they met the needs of clients. Today, however, they recognize that they were too focused on their own operations and what they knew how to provide, and not focused enough on what actually benefitted clients. They perceive a gap they are not sure how to cross. This theme, the gap between providers and clients, reappears in multiple places throughout the survey results. It is poignantly captured in this comment from Mercedes Canalda, the executive vice president of ADOPEM, a microfinance bank in the Dominican Republic: "One often does not know how to address the specific needs of the clients at the stage and moment of their lives."[1]

1. Comment translated from Spanish.

1. The Parts and the Whole of Financial Inclusion

The Center for Financial Inclusion defines financial inclusion as a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. It adds that these services are provided by a range of institutions, mostly private. And, reflecting the results of this survey, it hereby expands its definition to note that full inclusion requires the clients of these services to be financially literate.

Such a definition may seem fairly obvious and non-controversial, but the CFI emphasizes the definition because the term "financial inclusion" is often used to refer to specific pieces of the puzzle as if they were synonymous with the whole. The survey asks respondents to envision what we might wish to see if full inclusion was achieved in this decade. That vision rests on five pillars: 1) a full product suite, 2) provided with quality, 3) reaching all who can use the services, 4) in a diverse, competitive marketplace, 5) to an informed clientele. If one keeps all five pillars in mind as the end goal, it may be easier to see that success in one area, such as rapid expansion of a product, may only produce the social and economic benefits desired if accompanied by progress in the other areas.

Reflecting on each of these pillars draws attention to the gaps that exist on both the quantity side (excluded clients) and the quality side (existing clients with poor services). On quantity, survey responses were surprisingly restrained about reaching new client groups, ranking it only 12th as an opportunity (Table 1). Comments reveal a diversity of priorities for reaching out. The still-excluded groups mentioned include "youth, women, people in hard to access rural areas," "the top half of the 1.4 billion people in the Bottom Billion," the poorest, and people who are too expensive to reach currently. One senses just a hint that perhaps respondents are lukewarm about new groups because they lack business models for reaching them successfully.

On quality, respondents reinforced the client needs theme. They appeared to endorse a full financial inclusion vision that addresses both complete exclusion and under-inclusion in which people receive limited or inadequate services. Given the ubiquity of informal and semi-formal services, few people have zero financial services, but many use services that are risky, inconvenient, costly, and at times harmful. Messages about quality came through clearly in the rankings, suggesting that the pursuit of financial inclusion must include a strong focus not only on numbers reached, but also on the range of services provided (Opportunities 2 and 7, Obstacle 3), the extent to which they respond to client needs (Opportunty 10, Obstacle 4), and clients' ability to make good use of the services through their own financial capabilities (Opportunity 1 and Obstacle 1). Moreover, the responses indicated that quality, broadly defined, is closely intertwined with reaching new clients. If quality issues are adequately addressed, they will attract many more people to use financial services.

The pillars of financial inclusion noted above also draw attention to the fact that the structure of the marketplace—who provides—will have an enormous effect on how well clients are served. Survey respondents support regulation that creates an orderly marketplace, particularly one that protects clients (Opportunity 5) and creates space for smaller, specialized institutions that serve the poor (Opportunity 8). They do not favor direct government interventions in the market, ranking such items at the very bottom of the list (see Part I, Section 9).

The total financial inclusion challenge is too daunting to tackle all at once. However, the vision of full inclusion with its pillars helps to identify the trade-offs involved in making the inevitable choices. Nicole Pasricha, writing from a support organization, points out:

> Classifying the challenges in order of priority also depends on our priorities. If we want every low income person to have a simple bank account, maybe we would focus on removing barriers to agent use and account opening plus focus on literacy. But if we are interested in expanding SME finance to see real economic growth in a country, maybe we need to look at credit bureaus and other operating environment challenges. Maybe there is a parallel with

health care: do we want everyone to be able to get a check up? Or should we invest in the latest specialized cancer treatments?

Her comment also suggests a variety of expectations for ultimate benefits that motivate the promotion of financial inclusion. How do we address the proliferation of possibilities?

2. Easier Said Than Done. The Seven-Point Action Agenda

The CFI conducted this survey seeking to tame the many-headed beast of financial inclusion. We had difficulty narrowing the lists of opportunities and obstacles to a mere 30 each. We hoped that the wisdom of crowds would bring order to the many possibilities.

With the survey results, we are delighted to find that the top-ranked opportunities and their accompanying obstacles outline a holistic action agenda (Table 1). In the list below, the top ten items have been recombined slightly to reduce overlap. The result is a seven-point agenda that addresses each of the main arenas for action to achieve full financial inclusion within a decade. It's a recipe with a balanced blend of seven key ingredients:

1. Financial education
2. Product range, informed by understanding client needs
3. Technology-enhanced delivery channels
4. Credit bureaus
5. Client protection
6. Institutional capacity building
7. A sound regulatory framework

As noted at the outset of the report, the agenda begins with clients—specifically, their understanding of financial services—and a product offer informed by what they want. It then moves to the means of delivery—through exciting new channels and with the continued development of provider institutions. Two items that might not have been present in the past reflect the recent crisis experience of microfinance—credit bureaus and client protection. Together with the final item, sound regulation, these three items address the need for an enabling environment that assists the system as a whole to work smoothly and to the ultimate benefit of clients.

The next section of this report interprets the messages associated with each of these items, unpacking the responses with insights from written comments. This, however, is only a beginning. The intent is that these messages form the basis for further dialogue. The rankings raise more questions than they answer, so there is much to discuss:

- Why are financial education and literacy ranked so high by all stakeholders? Who is responsible for educating clients? How does literacy affect what services clients use?
- Why does the industry perceive limited understanding of clients as such an important obstacle? Does this genuinely reflect lack of information or is it a lack of models to address client needs? What research would increase understanding?
- What stands in the way of a broader product range? Is information about clients the missing piece or is it provider cost? Or perhaps the regulatory framework? How does competition play a role in expanding/improving product range?
- Can credit bureaus serve low-income and new clients? Why is there not more action to solve the challenges of setting up credit bureaus? Which stakeholders can take the lead?
- Can credit bureaus combined with client protection prevent future crises of over-indebtedness?
- Can agent banking and mobile banking move beyond their current limited geographies? Are these breakthroughs rivals or enablers for smaller financial service providers like MFIs?
- How has the capacity-building agenda changed to address current challenges?

Further dialogue will also sharpen specific messages for regulators, investors, and providers, as discussed in Part II of this report, and for specific regions, as shown in Part III.

3. About the Survey and This Report

To conduct this survey, the Center for Financial Inclusion reached out to contacts in the microfinance and financial inclusion sectors and presented them with two lists—an opportunities list and an

obstacles list—each containing 30 items. The lists were derived from internal brainstorming by the staff of CFI's Financial Inclusion 2020 project about the key building blocks needed to achieve the vision of financial inclusion, and then vetted by a number of experts. In the process, some items were added, others removed, and some consolidated. We learned that there is no such thing as a perfect list for a topic as complex as financial inclusion. However, the items presented in the survey capture the majority of elements appearing in current discussions of inclusion, although phrasing and the way individual items were combined undoubtedly affect results. The survey was offered in English, Spanish, and French and was open from late January through early March, 2011. There were 301 complete responses, which form the basis for the results presented here (see Appendix II for more information).

To complete the survey, respondents selected the ten items in each list that they believed to be the most important opportunities or obstacles to achieving full financial inclusion. To obtain the overall rankings presented in Table 1, we tallied the number of people who included a given item in their top ten. Thus, 199 people placed financial education in the top ten (66 percent of all respondents), making financial education the 1st ranked opportunity.[2]

The next section (Part I) of this report examines these overall results, proceeding generally from the highest- to lowest-ranked opportunities (and their accompanying obstacles). Because many items are interconnected, it is not necessary to have separate discussions of all 60 items. The discussions in Part I touch on nearly all of the items, even if only briefly.

An important facet of the survey is how it reveals differences of view among respondents in different industry segments (Part II) and countries (Part III). Three main industry groups answered the survey: regulated and non-regulated financial services providers (26 percent), investors (16 percent), and support organizations (40 percent, including networks, consultants, technical assistance providers, etc.). The remaining 18 percent include donors, academics, regulators, and others, with an insufficient number of responses in any one group to treat separately (see Appendix Figure 1). Regionally, the largest group was from the global North (Western Europe, the United States and Canada), 43 percent of all respondents. The remaining 57 percent of respondents were widely dispersed among Latin America (23 percent), South and East Asia (14 percent), Africa (12 percent) and a few each from the Middle East, Eastern Europe, and Central Asia (see Appendix Figure 2). Parts II and III explore the differences among these groups. It is important to note that the voices of support organizations and of people from the most-developed countries substantially influence the overall rankings presented in Table 1 and Part I. As you will see, however, while there are some distinctive preoccupations by group and region, there are also many strong areas of agreement across the entire industry.

This report is intended to be used as a reference. Readers are invited to absorb the main messages in Part I and then feel free to skip to specific topics or geographic areas of interest. Parts II and III are each written as stand-alone mini-reports. Please consult the Appendixes for complete definitions of survey items, expanded results tables, and further detail on survey methodology and respondents.

2. The survey also asked respondents to select their top three items from their personal top ten list. These results did not differ substantially from the top ten rankings, and therefore the discussion in this paper is largely focused on top ten rankings, except where noted. Top three results are presented in Appendix Table 3.

Part I. Main Messages in the Top Ten Rankings

1. Financial Inclusion Requires Educated Clients

Financial education and financial literacy unequivocally top the charts in this survey. As Lindsay Gleason of ACCION writes, "Financial education is one of the best ways to empower the working poor (and, frankly, all of us) to take control over their financial lives, which has a ripple effect to all areas of their lives."

OPPORTUNTIES
1. Financial Education

OBSTACLES
1. Financial Literacy

Respondents view financial literacy as an enabling factor that unlocks other key dimensions of financial inclusion:

- Client protection: "Options without education are dangerous and create opportunities to take advantage of the poor. Pushing clients into committing to something they don't know enough about reinforces the idea that financial institutions cannot be trusted," continues Gleason.
- Prevention of over-indebtedness: "Credit bureaus and other mechanisms without financial literacy do not work. Clients will go to over-indebtedness via approaching informal financial service providers," says Ngeth Chou, a regulated financial service provider from Cambodia.
- New product development: "Financial education is very important for expanding the range of products, and so that the use of the products is well understood by the final client," says José Luís Aguela, from a support organization in Peru.[3]
- Reaching poorer clients: "In countries like ours with very low quality schools it is important to raise the consciousness of the people regarding good management of money, including savings, credit, income management, etc.," writes Teresa Rivarola de Vellila, a Paraguayan provider.[4]

People may point to financial education as a ready solution to other problems. When providers develop products they believe to be valuable but find uptake low, they may seek an explanation in clients' lack of knowledge. Marten Leijon of the MIX (and a member of our review committee) cautions that financial education is not a starting point for inclusion, but that if it accompanies business model changes, it "may be a necessary condition to deal with the inherent complexity of the new product/channel systems so that these work in the interest of the client."

One reason for its high ranking is that client literacy has global geographic relevance. Respondents were asked to consider their own country or region when answering the survey, and this influenced rankings for items with uneven geographic applicability. Mobile phone and agent banking, for example, are highly ranked in regions where they are taking off, but less in other parts of the world, bringing down their overall rankings. Financial education, one commentator noted, "is important in all country contexts." Financial education was most strongly endorsed in South America: 86 percent of respondents from the region included financial education in their top ten list.

The high rankings of financial literacy and education may derive in part from survey design. Some topics, such as regulation, appear in multiple items in different forms, essentially splitting the votes. But there are no close substitutes for financial education and literacy. We stress-tested these indicators by checking the top three listings, which signal intensity and priority (see Appendix III), and they passed. Financial education leads the top three opportunities list (see Appendix Table 3), and although lack of financial literacy drops to 5th on the obstacles side, the top ranks on that list are very tight.

3. Comment translated from Spanish.
4. Comment translated from Spanish.

In considering the action implications of this message, questions arise about how to "do" financial education. Respondents had varying ideas. Sandhya Suresh, a regulated financial service provider from India, writes, "We have started financial education to our clients and have found that it works! Especially women have a natural fear when they hear about 'finance' or financial management, though they are the best financial managers at home. A little knowledge and tips on savings, asset creation and efficient utilization of finance will make them wise decision makers." Ngeth Chou suggests that "Associations of MFIs and Banks should join forces to establish and execute national financial education programs for the public." Another writer proposes financial literacy campaigns. In short, ideas varied about who can best provide financial education and how.

Although many questions remain open, the message is clear and strong that financial literacy and financial education must figure in any future plans to achieve full financial inclusion.

2. If We Want to Meet Clients' Needs, We Need to Understand Them

OPPORTUNITIES

2. Expanding range of products
7. Full-inclusion financial institutions
10. Improved demand-side information

OBSTACLES

3. Microfinance's single-product approach
4. Limited understanding of client needs

The message has finally sunk in: low-income people need more than credit, and the microfinance industry must listen to clients so it can respond with more demand-driven products. Survey respondents ranked expanding the product range 2nd as an opportunity, along with improved demand-side information (10th). They ranked the microfinance single-product approach and limited understanding of client needs as the 3rd and 4th obstacles.

The idea of broadening the product range has challenged the microfinance community for some time, even while most microfinance institutions have continued apace with the usual business of scaling credit. Over-indebtedness crises, arising as they have from excessively rapid growth of credit, have at last broken the hold of the credit/scale mantra. "Provision of short-term credit is but a small (and on its own unstable) step towards financial inclusion," according to analyst Daniel Rozas (a member of this survey's review committee).

The mandate for change also comes from an entirely different direction: new research. Both qualitative studies like the "Financial Diaries" and randomized field experiments direct providers to look beyond credit and listen more carefully to clients.

A sea change in attitudes generated comments like these: "We're just beginning to understand client level needs and cash flows and have not yet done much to turn that information into products that serve clients best," says Larry Reed, a microfinance leader. "It is very important to develop new products based on the needs of local people. This demand is different in each context," writes Marieke de Leede, an investor. "Generating a more holistic approach to meet the poor's financial needs requires far better demand-side information," notes a respondent from a support organization. And finally, "An industry that is not responsive to client needs is doomed to fail," says Stewart Kondowe, from a support organization in Malawi.

This message came through so often in the comments that we are beginning to think of it as the new microfinance mantra. It is one thing to recognize the need for a broader product range, however, and quite another to actually provide new products. Very few comments evidenced actual movement in this direction. This is in part because of the serious challenge of altering business models. "Current business models are effective at reaching only a narrow market segment among low income people with a single, narrowly focused product (microcredit)," writes one respondent.

Ingrained patterns are in evidence in this comment from an investor in Colombia:

> There is a vicious circle: the rural population does not demand financial products and services

> because they don't know about them. Those who should offer them don't know the true needs of the rural population because it is not only market research but also an integral investigation that facilitates understanding in their full context the needs, expectations and tendencies of the rural population. And without knowing that, they don't know what to offer, and continue offering 'more of the same.'[5]

A few people mentioned specific new products, such as international remittance services in the Pacific region, deposit-taking services, and Islamic banking products. It may be partly an artifact of the study that there are few messages about individual products. An original longer list of possible products was consolidated into a single indicator to keep the length of the list manageable. Certainly a listing of individual products would have elicited illuminating comments.

Another aspect of the product diversification challenge is the question: "Who provides?" The 7th place ranking of full inclusion financial institutions suggests the importance of providers that offer a full array of services, including basic savings, credit and payments services – and possibly some form of insurance. Commercial banks, rural banks, and specialized microfinance banks can offer such an array. However, relatively few microfinance institutions are truly full-service providers, and many of the fast-spreading technology-enhanced innovations are led by retailers and telecoms companies.

At least one respondent prefers partnerships to the full-service provider model: "Rather than having one service provider bundle a host of products/services, promotion and strengthening of linkages among supportive service providers, both at informal and formal levels, would offer better opportunity to advance financial inclusion," writes Maria Teresa Bayombong from a support organization in Tanzania. The low rankings afforded non-traditional service providers (25th) and product bundling and cross-selling (26th), suggest a lack of clarity about the best providers to bring product diversity.

5. Comment translated from Spanish.

3. Mobile Banking and Agent Banking Promise Dramatic Breakthroughs in Cost and Reach

OPPORTUNITIES

3. Mobile (phone) banking
9. Correspondent/agent banking
11. Strengthening financial infrastructure for electronic transactions

OBSTACLES

7. Product cost structure
12. Costs of building/operating branches

Because of its potential for dramatic, rapid expansion of services, branchless banking is sometimes talked of as almost equivalent to financial inclusion. One respondent from Thailand describes mobile phone banking as the key to financial inclusion. While the respondents to this survey agree that technology-enhanced delivery channels represent a major, exciting opportunity, they do not see branchless banking as the only or even the central story in financial inclusion.

Mobile banking ranked 3rd overall, while agent banking ranked 9th. As expected, the enthusiasm for mobile banking was strongest in Africa, where the rapid uptake of M-Pesa by millions of Kenyans has dazzled industry watchers. Latin Americans were more excited about agent banking, an innovation that originated in Brazil and, with regulatory support, is spreading throughout the region.

These new transaction channels provide unprecedented power to reach new customers. "Research has already demonstrated the capacity of mobile banking to reach more previously unbanked and low-income people than the largest MFI in the country in a shorter period of time," writes Anne Hastings, head of the largest MFI in Haiti. Els Boerhof, an investor, sees phone and agent banking as essential ways to "achieve scale and penetrate deep into new territories."

The new channels offer dramatic increases in outreach by solving the critical bottlenecks of costs, both fixed and variable. Product cost-structures (7th) and branching costs (12th) were viewed as significant obstacles, especially by providers. "Agent banking drastically reduces the cost of setting up points of contact with customers, allowing MFIs, banks and other providers to reach out into areas where building

branches would be too expensive," comments Larry Reed. As many respondents noted, high branching costs in rural areas are associated with poor physical infrastructure – roads, electricity, etc. – that branchless banking is able to leapfrog. Such infrastructure barriers ranked surprisingly high, at 9th on the obstacles list.

In addition to reducing the bricks and mortar costs of getting out to new areas, mobile banking can also significantly minimize transaction expenses, as one respondent points out. Presumably, this refers to costs on both the provider and client sides, and applies not only to clients in remote locations but even in low-income urban areas.

Two other technology-enhanced delivery channels were included in the survey, though they received less enthusiastic rankings – electronic payments through ATMs and POS devices (11th) and mobile branch banking (15th) in which specially outfitted vans act as branches on wheels. We thus have a ranking of four delivery channel innovations that address location and transactions costs. All are seen positively, but with varying degrees of excitement: mobile phones are first, followed by agent banking, ATMs and POS devices, and finally, mobile branches.

An implicit question is why this survey's respondents did not rank new delivery channels as an even greater opportunity, given the excitement around them. Answers to this question are only hinted at, but appear to focus on the extent to which the channels call upon providers to re-structure their business models, and the difficulties this poses for smaller financial institutions like MFIs. Smaller providers may see themselves being bypassed or relegated to a traditional niche by powerful corporate players. "Most players in different channels that could be used to serve the poor can only imagine expanding what they are already doing, and cannot envision the kinds of radical changes in roles and responsibilities that new technology makes possible," continues Reed. Success with these channels also requires providers to form partnerships with different kinds of firms: "Achieving full financial inclusion will require strategic partnerships among distributors, product providers, and technology providers," says a respondent. Alice Lubwama, a financial services provider from FINCA Uganda, speaks of the need for telecom and financial services software to synchronize. The absence of such arrangements or difficulty in setting them up is a noteworthy bottleneck, with lack of network cooperation for electronic banking ranking 13th among obstacles.

Somewhat surprisingly, these network issues ranked higher than regulation that lags technology, which ranked only 20th. Providers may implicitly be acknowledging the efforts of regulators to facilitate new channels.

4. Building Capable Institutions Never Goes Out of Style (It's the Perennial Priority)

OPPORTUNITIES

6. Capacity building for MFIs

OBSTACLES

2. Limited institutional capacity among MFIs
15. Limited know-how of mainstream providers

The perennial need to strengthen institutions that provide services to low-income people was the 2nd ranked obstacle and 6th on the opportunity side. Comments from respondents alluded to three particular areas of institutional weakness where capacity building is needed: governance, expanding to new products and client groups, and managing risk. Institutions need help to keep up with the evolving industry.

The latest "Banana Skins" report ranked corporate governance as the fourth most important risk facing the industry today.[6] In this survey, respondents alluded to governance several times, even though it was not an item on the list. They highlighted the role of governance in ensuring commitment to social objectives. "It is crucial to improve corporate governance that embraces social consciousness among the board of trustees and key management among microfinance institutions," explains Ruben de Castro de Lara from SHED Foundation in the Philippines. This view underlines the general theme running through survey responses, that the industry is re-focusing its attention on its initial social objective.

6. Lascelles and Mendelson, "Microfinance Banana Skins 2011" 6.

Many respondents commented on the technical skills needed within institutions to expand the product offering and reach new client groups. Barclay O'Brien, from a support organization in Australia, comments, "Transformation, together with capacity building, are still key to greater financial inclusion, as they allow many of the other opportunities to be achieved, e.g. product expansion, greater outreach and use of alternate delivery channels." John Muhimbise from Uganda links "the issue of skilled manpower to run microfinance enterprises" with "the attendant inability of the institutions to design products suitable to the various client segments." Providers and the industry in general are keenly aware of this.

New client groups and new products require expanded capability to manage information. A respondent from a support organization elaborates, "I believe [a] significant obstacle to financial inclusion is appropriate financial reporting systems for MFIs to combat fraud, and incorporate market and impact research linked to clients, as well as track the history of multiple products at different times in the client's life." An investor in Mexico states, "I would have liked to include 'Risk Management Training and Systems Implementation for MFIs' in my top three opportunities. From my point of view, the lack of technical skills and IT systems necessary to adequately manage financial risk is the single most destabilizing force in the market."

Other respondents discussed the importance of institutional capacity for financial soundness of MFIs, including one from Guatemala who points out that insufficient capacity can create operational and credit risks and actual financial losses, pushing investors and funders away. Some, like Joel Mwakitalu from Tanzania, believe the industry has made progress on building capacity: "Many providers in poor countries are professional in microfinance services—there are now formal skills training colleges in microfinance in many countries." However, others are frustrated. "Quick and dirty methods for 'capacity building' should stop—you cannot make a microfinance expert from scratch in two weeks through an on-line course. This mass production of microfinance 'experts' with no clear experience nor understanding needs to be carefully evaluated," writes Geetha Nagarajan from the United States.

5. We Can't Put Off Action on Credit Bureaus Any Longer

OPPORTUNITIES

3. Credit bureaus
15. National identification

OBSTACLES

6. Lack of credit bureaus
28. Client risk

Over-indebtedness crises resulting from market saturation and rapid growth have finally convinced microfinance industry participants of the need for work on credit bureaus. Until recently, many were less than enthusiastic. Excuses for ignoring credit bureau development have included providers' reluctance to let competitors see client information, confusion about who should take action to create credit bureaus, and the observation that many existing credit bureaus only cover middle-class clients of mainstream banks.

The recent crises are quickly sweeping away any rationalizations for inaction, as participants in Bolivia and South Africa could probably have predicted, having experienced over-indebtedness crises of their own that led to stronger credit bureaus. "Recent developments have also demonstrated that, to maintain the prudence of the sector, the need for credit bureaus and credit information is of utmost importance," writes Els Boerhof, an investor. Building credit bureaus was the 3rd opportunity and the lack of them was the 6th obstacle.

As a prerequisite for credit bureaus, national identification documentation was ranked relatively high. At 15th overall, national IDs were a mid-range opportunity, probably not higher because they already exist in many places. This item was a higher priority in specific regions including East Africa and South Asia.

Credit bureaus are viewed not only as a protective measure, but also as a way to improve on outreach to poorer clients and to lower prices. "Expanding inclusion means reaching out to people who are too expensive or difficult to reach currently. National IDs, when combined with credit bureaus, will lower the cost of assessing risk while at the same time giving an incentive to repay that can replace more expensive systems like guarantors," writes Larry Reed. "With

a more developed data collection infrastructure such as credit bureaus, providers can begin to expand to lower risk client segments by offering less expensive credit," according to Tanir Helayel, an investor.

These comments suggest that credit bureaus may enable significant business model changes, including lending based on credit scores. Such models are well-developed in high-income countries, particularly for consumer lending. It remains to be seen how credit bureau-enhanced lending models will mesh with traditionally high-touch microfinance. There is inherent tension between the cost-reduction potential of using credit scoring and the message of getting closer to the client that pervades these survey responses.

6. Client Protection Is One Response to Crises in Microfinance. Are There Others?

OPPORTUNITIES

3. Credit bureaus
5. Client protection regulation
17. Expansion/improvement of microfinance associations
23. Self-regulation

OBSTACLES

3. Microfinance's single-product approach
5. Political interference
10. Inadequate client protection
11. Poor business practices
17. Unsustainable growth
18. Commercially oriented entrants
27. Public mistrust of financial institutions
28. Client risk
29. Negative press image

Survey responses and many heartfelt comments reveal the microfinance industry struggling to identify the implications of the recent crises in microfinance in Andhra Pradesh, Nicaragua, Morocco, and Bosnia (among others). At the same time, the rankings reveal that respondents put these crises in broader perspective when looking ahead to full financial inclusion. Only one directly crisis-linked item, the mono-product approach, is in the highest-ranking obstacles or opportunities.

The diagnosis of causes and cures is scattered. In part this is because the survey was not about the recent crises. It asked people to look to the future rather than diagnosing the past. Nevertheless, given the survey's timing, in January/February 2011, it is clear that the Andhra Pradesh crisis was on many minds. The ranking of several of the obstacles in particular offers an implicit diagnostic regarding causes. Some attribute the crisis to the mono-product approach, which in 3rd place was the highest ranking of any item strongly associated with the crisis. Others identify political interference (5th), inadequate client protection (10th) and poor business practices (11th). Chuck Waterfield, founder of Microfinance *Transparency*, sees the problem coming largely from the industry itself.

> We have placed far too much emphasis on the message of a billion people needing credit. We have pushed and expected massive growth in credit, and most of the incentives are structured to push MFIs for reckless growth. We have not lent responsibly nor transparently. We are now suffering the consequences of reckless growth and reckless lending. If we do not make serious and dramatic changes very soon, the efforts to build an innovative way to serve the poor will be lost.

Ahmed Syed Moshin, from the Pakistan Microfinance Network, echoes Waterfield's opinion more bluntly, writing: "Sometimes it is easy to say that we work for the poor, but the way we push products down clients' throats and dismiss demand side research, it leads to crises like we have recently faced globally."

The survey offered a number of crisis-related items that respondents might have selected, but these were not taken up: unsustainable growth (17th), commercially oriented entrants (18th), public mistrust of financial institutions (27th), client risk (28th) and negative press image (29th). The latter two were at the very bottom of the obstacle rankings, except in India where the press image rose to the middle of the pack (still surprisingly low, given the incendiary role of the press in precipitating the backlash against microfinance in Andhra Pradesh). The low ranking of client risk is surprising because the latest "Microfinance Banana Skins" placed credit risk as the most important risk facing the industry. One suggestion is that naming it "client" rather than "credit" risk in this survey shifted respondents' perception, even though both refer to the risk of borrower non-repayment. The low rankings afforded some of these items could reflect a lack of a coherent view of how all the elements worked together to create problems, but it could also be seen as a sorting out of the relative importance of causes.

Taking up the latter idea, the narrative depicted runs like this: The crisis in microfinance resulted from an overemphasis in microfinance on credit (Obstacle 3) coupled with the race for growth (Obstacle 17). Politicians seized on signs of over-indebtedness (Obstacle 5), and the situation escalated into crisis. A number of other factors contributed, like weak or absent credit bureaus (Obstacle 6) and client protections (Obstacle 10), as well as poor business practices (Obstacle 11), especially by actors with heavy profit orientation (Obstacle 18). However, the press played only an auxiliary role (Obstacle 29), and the clients themselves are not to blame (Obstacle 28).

Looking forward, respondents suggest a number of responses to prevent future crises. The top-line messages from the survey as a whole—about financial education, product diversification, and understanding clients—may be taken as an implicit response to the crisis. That story says that microfinance must go back to its roots and focus on clients in order to be rid of the problem. "If we don't focus on the client and ensuring that they are protected and helped the MF industry will eventually be viewed as credit card companies, i.e., they provide a huge amount of small loans which creates a nice convenience, but there is no illusion of helping people," writes Paul Luchtenburg, from a support organization in Cambodia (and a member of the Smart Campaign Steering Committee). The main explicit actions to prevent future crises are credit bureaus (3rd) and client protection regulation (5th).

Looking more closely at client protection, it is interesting to note that client protection regulation (5th) ranked higher as an opportunity than inadequate client protection and poor business practices ranked as problems (10th and 11th). Moreover, there was a wide difference of views by industry segment, with support organizations and investors being much more concerned about client protection than providers. These differences are discussed in more detail in Part II.

It is also significant that respondents generally favored a regulatory approach, while ranking self-regulation only 23rd and stronger associations as 17th. Among the tasks charged to regulators are ensuring that providers use transparent pricing, avoid client over-indebtedness, and treat clients fairly, according to one respondent. Ahmed Syed Moshin proposes "Setting up of a Statutory Grievance Redressal System (à la NCR in South Africa) will reduce political risk and help in providing the necessary infrastructure for sustainable growth in microfinance." He was not alone in referring to South Africa's client protection framework as a model for the rest of the world.

Some respondents noted that a regulatory approach alone is not sufficient. "Developing a culture within a country or organization of embracing and honoring client protection principles is the way to create a more inclusive financial world. Creating strong, client-protection centered institutions and programs is the only way financial inclusion can really become a reality," writes Lindsay Gleason. Kalpana Sankar, from an Indian NGO, speaks to the highly sensitive profit-maximization issue: "Sustainability and reasonable profits should be the goal and not profit maximization while dealing with poor clients."

In the final analysis, as David Baguma, from the microfinance association in Uganda, summarizes: "Client protection focuses on the end users – the clients, the very reason MF services began."

7. Here's an Industry That Actually Wants More (and Better) Regulation

It is somewhat difficult to assess the priority given to regulation because several items addressed different aspects of regulation. Most regulation items scored high, but not at the top of the lists. Client protection regulation was the highest of the group, at 5th, while regulatory frameworks for providers to the poor came in at 8th on both the opportunity and obstacle sides. General prudential regulation ranked 13th.

To some degree, the various regulatory items split the votes, making it appear that regulation is a lower priority. In cases like this, we consult the top three lists, and find that on the obstacles side, lack of regulatory frameworks for MFIs and other providers to the poor, 8th on the top ten obstacles, was 4th on the top three list, signifying some intensity of opinion. However, the ranking of other regulation items on the top three list

OPPORTUNITIES

5. Client protection regulation
8. Improved regulation and supervision of MFIs
13. Prudential regulation and supervision (in general)
22. Collateral and secured-transactions reform
23. Self-regulation

OBSTACLES

8. Inadequate regulatory framework for MFIs
10. Inadequate client protection
13. Weak legal infrastructure
19. Non-business-friendly environment
20. Regulation that lags technology
21. Financial regulatory priorities
25. Lack of interest by providers and policymakers

was virtually the same as on the top ten, and the written comments, while numerous, rarely express urgency. Bottom line: respondents do favor stronger regulation, particularly in the areas of client protection and specialized regulations for providers to base of the pyramid, but this is not their most urgent concern.

It may be surprising for the participants in an industry to call for greater regulation. The mainstream banking industry rarely asks for more regulation. Yet microfinance participants seem to hope that regulation directed specifically at financial service providers and at client protection can build greater legitimacy and a more orderly market environment. “Regulation and supervision are indispensable tools for strengthening the financial system and making the industry credible,” writes Teresa Rivarola de Vellila, a provider from Paraguay.[7]

Some respondents see regulation as an antidote to the industry’s recent ills. “To counter the concern about mission drift or unethical activities, the third key opportunity must be to improve regulation and supervision—not just to restrict MFIs (as seems to be the thrust post-A[ndhra] P[radesh]) but to catalyze better MFI performance and outreach, such as by allowing MFIs to take deposits,” writes Barclay O’Brien, from a support organization. “Competition from new entrants and better regulation (i.e., transparency) and supervision are keys to motivating management to lower prices, improve operating efficiencies, reach new populations and introduce new products,” says another support organization observer, Bill Harrington. Another respondent mentioned that good regulation would dampen uncontrolled growth. Respondents implied that regulators are adequately engaged with these issues, ranking lack of regulator priority and policymaker interest very low, in 21st and 25th place, respectively.

Self-regulation (23rd), while helpful, is not seen as an adequate substitute for regulation from banking authorities. Nevertheless, some comments pointed to a positive role. From Nigeria, Pauline Nsa, a regulated financial service provider, writes, “Self-regulation would help create sanity in the industry,” and investor Jacco Minnaar adds, “Self-regulation should focus on doing no harm (especially tackling over-indebtedness) and promoting a dialogue on how MFIs can move towards sustainable banking in a broader sense.”

The role of regulation in facilitating – or retarding – the spread of new technologies is a current high-level policy concern; it is a focus of AFI and the G-20’s financial inclusion initiative, and the subject of several CGAP analyses. The respondents to this survey were not highly concerned, however, ranking it only 20th as an obstacle. This may reflect the relative lack of involvement of microfinance institutions in implementing new technologies.

A few respondents were, however, moved to comment. “Mobile banking is the ‘wave of the future’ – yet regulators lag on regulating this field. This opens an opportunity for microfinance, and financial inclusion institutions have a role in developing self-policing practices for this industry,” says Michael Rauenhorst, an investor. The challenge of keeping regulations current as technologies change is evident in a comment from Tomas Gomez, a regulated financial services provider from the Philippines: “Regulatory oversight on outsourcing (cloud computing for example) needs to be updated as present outsourcing rules are restrictive.” Gomez’ comment connects the pace of regulatory change with another key obstacle, the cost of service provision (7th and 12th).

Items linked to regulation in general and the broader policy environment attracted relatively little attention. Respondents were somewhat concerned about prudential regulation and supervision of the

7. Comment translated from Spanish.

banking system as a whole (13th opportunity) and a weak legal infrastructure (13th obstacle), but were not worried about collateral and secured transactions (22nd opportunity) or a non-business-friendly environment (19th obstacle).

8. Funding and Transformation Aren't as Pressing as They Used to Be (and Other Mid-Ranked Items)

A number of items that were focal points in earlier microfinance debates have receded into the middle ground in this survey. Among these items were microfinance transformation (19th), building investor markets (20th) and the related obstacle of appropriate funding (15th), and commercial bank downscaling (21st), with the related obstacle of limited know-how of mainstream providers (15th). One other mid-ranked opportunity, village savings and loan associations/self-help groups (17th) is possibly a rising item. A brief comment on each of these:

- The transformation of microfinance institutions from non-profits into for-profits has been an important industry-building process during the past two decades. Today, in the more developed regions, particularly South America, transformation's low ranking probably reflects an opinion that most of the needed transformations have already happened and that new transformations are unlikely to change the landscape of financial inclusion. In less mature areas, such as Central America, transformation scored somewhat higher.
- During the past two decades the microfinance industry focused strongly on building the links to capital markets that would allow for growth. These efforts have succeeded so well that funding is no longer seen as a major obstacle. Investor markets exist, allowing the focus to move from the building blocks of financial transparency to those of social performance and the client experience.
- Some participants in microfinance in the past two decades have hoped that once the business models of microfinance were proven, mainstream commercial banks would adopt them and build microloan portfolios of their own. Bank downscaling projects such as Banco Pichincha's Credifé were heralded as the first movers in a potentially rapid-scaling trend. While there are a number of successful bank downscaling models, in this survey it appears that the concept of banks setting up microlending subsidiaries has niche relevance, particularly in South America, but will not be a major contributor to financial inclusion.
- Village savings and loan associations and the related phenomenon of self-help groups also occupy a middle range in this survey, probably because they are methods embraced strongly by their devotees but which are largely ignored by the proponents of regulated microfinance. The advocates of these semi-informal mechanisms in Africa and South Asia have been attracting attention in recent years, as their models have spread to reach more people and have shown resilience in the face of crises in microfinance.

OPPORTUNITIES

17. Village savings and loan associations/self-help groups
19. Microfinance transformation
20. Building investor markets
21. Commercial bank downscaling

OBSTACLES

15. Appropriate funding
15. Limited know-how of mainstream providers

9. Thumbs Down to Direct Government Interventions

In discussions among representatives of public sector and donor organizations, programs operated by, with, or at the direction of the public sector are often seen as key actions for increasing financial inclusion. Such programs include provision of services by public sector or state-owned banks. They include directed credit mandates like the well-known priority sector lending rules in India. They also include more recent innovations, like mandates for no-frills bank accounts (the Mzanzi account in South Africa, for example), and the payment of government benefits through electronic means as a way to introduce new clients to banking services.

OPPORTUNITIES

24. Matched savings/cash transfer schemes
26. Linking government transfers to deposit accounts
28. Mandates to provide no-frills bank accounts
29. State bank reform
30. Directed credit/service mandates

Matched savings accounts, widely used in the U.S. and U.K., are designed to encourage asset-building by adding a cash grant to a clients' own savings. These three latter initiatives have been enjoying quite a vogue in development circles. There are many reasons for this. For example, matched savings and government transfer payments are favored by those seeking to build the beginnings of a social safety net. Jan Maes, from a support organization, explains: "Cash transfer schemes have enormous potential to set very poor people on a path towards self-reliance and capacity to use financial services. The microfinance sector itself should not be the source of such funds, but needs to help linking government transfer to recipients who become their new clients." Another reason is surely because these government-led programs seem to offer policymakers ready levers they can pull to create a great effect, without having to rely on the decisions of other actors.

With very few exceptions, however, respondents to this survey do not favor such initiatives or see them as essential for financial inclusion. Maes was one of only 14 percent of all respondents who selected government-linked cash transfers as relevant. This and related items accumulated at the very bottom of all opportunities, occupying 24th and 26th through 30th (i.e., last) place.

This is a very strong message about the perception of the role of the public sector. While respondents supported and even requested public sector action in the realm of regulation, they did not favor public service provision. Explanations for the low rankings may include simple lack of awareness about such initiatives; perhaps there is an opportunity for education and dialogue. The rankings are undoubtedly also influenced by the tendency for people to rate the things they are involved with as highly important. Nevertheless, the message comes through that the providers, investors, and support organizations who completed this survey do not view the public sector as a key provider, nor do they want the government to tell them what products to offer or to whom.

Part II. What You Think Depends on Where You Sit – Responses by Stakeholder

As might be expected, providers think differently from investors about financial inclusion, support organizations, or regulators. Segmenting the survey responses by stakeholder group shows how each group's priorities in financial inclusion align with its main interests as well as its day-to-day realities.[8] It also allows us to consider the unique roles played by actors at different levels of the financial inclusion ecosystem.

The majority of survey respondents (82 percent) belong to one of three stakeholder groups: support organizations, such as networks, consultants, and promotional organizations (40 percent), financial service providers (26 percent), and investors (16 percent). These three groups play distinct roles in the financial inclusion ecosystem and their responses to the survey reflect their vantage point on financial inclusion. The remaining categories of respondents included regulators, donors, academics, and others. Their views are not directly compared to those of the other groups because the number of respondents in each category was too small, but we do take note of the responses from regulators and donors at the end of this section.

Several cognitive biases are worth keeping in mind when analyzing the differences in how various stakeholder groups ranked the opportunities and obstacles. These are tendencies everyone shares: no group is any more prone to the foibles of human nature than the others.

- *Others are the culprits.* One of the first explanations to come to mind may be an aversion to seeing oneself as the problem. For example, providers ranked an obstacle that is in their realm of control, microfinance's single-product approach*,* lower (8th) than investors (5th) or support organizations (2nd). The faintly visible game of hot potato that might be affecting rankings could also stem from a relative lack of in-depth understanding about what other stakeholders do, compared to the understanding about one's own work.
- *Trees vs. forest.* The farther a respondent is from operations in the field, the more their work tends to focus on the big picture, including understanding general trends and more theoretical concepts. As a result,

Table 2. Survey Results: Opportunities by Stakeholder Group

	PROVIDERS		INVESTORS		SUPPORT ORGANIZATIONS
1	Financial education (1)	1	Credit bureaus (3)	1	Financial education (1)
2	Expanding the range of products (2)	2	Expanding the range of products (2)	2	Client protection regulation (5)
3	Credit bureaus (3)	3	Client protection regulation (5)	3	Expanding the range of products (2)
3	Capacity building for microfinance institutions (6)	4	Capacity building for microfinance institutions (6)	4	Mobile (phone) banking (3)
5	Full-inclusion financial institutions (7)	5	Mobile (phone) banking (3)	5	Full-inclusion financial institutions (7)
6	Client protection regulation (5)	6	Improved regulation and supervision of microfinance (8)	6	Capacity building for microfinance institutions (6)
7	Mobile (phone) banking (3)	7	Correspondent/Agent banking (9)	7	Credit bureaus (3)
8	Improved regulation and supervision of microfinance (8)	8	Financial education (1)	8	Improved regulation and supervision of microfinance (8)
9	Correspondent/Agent banking (9)	9	Full-inclusion financial institutions (7)	9	Correspondent/Agent banking (9)
9	Strengthening financial infrastructure for electronic transactions (11)	10	National identification documentation (15)	10	Improved demand-side information (10)

Note: n = 248. Responses from other categories of respondents have been excluded. Numbers in parentheses indicate item's overall rank.

8. For a full comparison of how providers, investors, and support organizations ranked opportunities and obstacles, see Appendix IV.

Table 3. Survey Results: Obstacles by Stakeholder Group

	PROVIDERS		INVESTORS		SUPPORT ORGANIZATIONS
1	Costs of building/operating branches (12)	1	Lack of credit bureaus (6)	1	Limited financial literacy (1)
2	Political interference (5)	2	Political interference (5)	2	Microfinance's single-product approach (3)
2	Limited understanding of client needs (4)	3	Inadequate regulatory framework for providers to the poor (8)	3	Limited institutional capacity among microfinance institutions (2)
4	Lack of credit bureaus (6)	4	Limited institutional capacity among microfinance institutions (2)	4	Inadequate client protection (10)
5	Limited institutional capacity among microfinance institutions (2)	5	Insufficient infrastructure (9)	5	Limited understanding of client needs (4)
6	Product cost-structures (7)	5	Microfinance's single-product approach (3)	6	Political interference (5)
7	Limited financial literacy (1)	7	Inadequate client protection (10)	7	Insufficient infrastructure (9)
8	Insufficient infrastructure (9)	7	Product cost-structures (7)	8	Poor business practices (11)
8	Microfinance's single-product approach (3)	9	Limited understanding of client needs (4)	8	Product cost-structures (7)
10	Inadequate regulatory framework for providers to the poor (8)	10	Limited financial literacy (1)	10	Lack of credit bureaus (6)

Note: n = 248. Responses from other categories of respondents have been excluded. Number in parentheses indicates item's overall rank.

support organizations and regulators may be less inclined than providers to mention issues relevant at the operational level and might put more weight on sexy silver bullets.

- *Less control over something makes it scarier.* When a problem is outside one's ability to control or anticipate, it appears as a bigger risk or obstacle. For example, investors rank political interference, something they have little or no control over, as the 2nd obstacle.

1. Financial Service Providers Look on the Practical Side

The financial service providers who took the survey came from a variety of organizational types: non-profits (27 percent), regulated microfinance banks (48 percent), commercial banks (18 percent), cooperatives (3 percent), and others (5 percent). Most would probably be characterized as microfinance institutions.

Providers' top opportunities—financial education, product range, institutional capacity building, and credit bureaus—suggest that the microfinance industry might be pausing in its pursuit of scale in order to focus on improving its value proposition to the client (Table 2). Opportunities typically associated with rapid growth, such as mobile (phone) banking, and correspondent agent banking, received a slightly lower ranking from providers than from investor and support organizations.

At the same time, microfinance institutions are aware that they could do more to advance financial inclusion. Specifically, respondents pointed out that in order to expand the product range, MFIs need to build their internal capabilities. "There is the issue of skilled manpower to run microfinance enterprises and the attendant inability of the institutions to design product suitable to the various client segments," writes John Muhimbise from Uganda.

As the main implementers of financial inclusion, providers prioritized very practical issues. Their first-ranked obstacle is the cost of building branches—which did not even make the top ten in the all-respondents list (it was 12th). As John Lwande, a practitioner from Tanzania, explains: "The costs of building/operating branches are generally high, the Bank of Tanzania's physical security policy renders branch infrastructure too expensive to set up, taking branches longer to break even and cater for a larger number of customers on a profitable basis." The ranking of this obstacle offers the following insights: first, that providers do not currently see alternative channels like mobile and agent banking as the sole or even key solution to reaching new clients; and second, that

regulators can help providers make branches less costly by modernizing physical branch requirements.

The second-biggest obstacles listed by providers were political interference and limited understanding of client needs (Table 3). These are not what we might imagine providers listing as the greatest challenges in previous years; they evidence reflection on the crises in Andhra Pradesh, Nicaragua, and Morocco, as well as messages from recent impact studies that point beyond credit. These two obstacles confirm the pause observed from the list of opportunities—providers may be shifting attention less toward pursuing new clients and more to understanding better how to serve the clients they have.

Compared to other stakeholder groups, providers place less weight on client protection. In the list of opportunities, client protection regulation is ranked in 6th place compared to 3rd place for investors and 2nd place for support organizations. The difference is even greater on the obstacles side—there providers ranked inadequate client protection nearly last (27th) compared to its 7th place rank for investors and 4th for support organizations. Apparently, providers feel that they are protecting their own clients well. They may, however, worry about other providers. This could explain why client protection regulation (which implies action by the government) is ranked relatively higher by this group than inadequate client protection (which could be understood to imply poor actions by providers).

Providers are hungry for good information about their clients. The lack of demographic information on the excluded (15th) and client risk (19th) are rated higher by providers than by other stakeholder groups, as is limited understanding of client needs (2nd) and lack of credit bureaus (4th) but they also hint at the complexity of the client-provider relationship. Providers need to understand clients on a variety of levels—not only how they manage their resources (and thus how to design more demand-responsive services) but also more basic information such as where new clients live and who they are. Providers have a direct understanding of how heterogeneous today's financially excluded population is and how little they know about both the excluded as well as those already served.

2. Investors See the World in Terms of Risk

Investors are one step removed from the end users of financial services, and while they share the goal of expanding financial inclusion, their more immediate concern is prudent selection and management of their investments. They view the industry through a risk assessment lens.

Investors in the survey voted credit bureaus as both their top opportunity and top obstacle (Tables 2 and 3). More than 80 percent of investors placed credit bureaus in their opportunity list and more than 70 percent did the same on the obstacle side (see Appendix Figures 3 and 4). As one investor notes: "Lack of data both at the sector level and at the client level is an important obstacle. It creates an environment that is vulnerable to over-indebtedness."

The other top opportunities and obstacles for investors also focused on minimizing risk. Expanding the range of products (2nd) was referenced by investors as a way to manage risks associated with credit, competition, political interference, and liquidity. The first three of these risks are ranked in "Microfinance Banana Skins" within the top five risks facing the microfinance industry, political interference (Obstacle 2) in particular. In the latest "Banana Skins" survey taken just as the Andhra Pradesh crisis was breaking, investors ranked political interference as the fifth most important risk. Since then, more unease has surfaced about the future of microfinance in India and how changes in India might affect microfinance on a global level.

Investors look to regulators to play a risk-mitigating role, as evidenced by their high rankings for client protection regulation (Opportunity 3) and inadequate regulation for providers to the poor (Obstacle 3). They ranked inadequate regulatory framework for MFIs significantly higher than did other groups—over 65 percent of investors placed it in their top ten obstacles, versus about 40 percent of providers and support organizations (see Appendix Figure 4). An investor summarizes: "Sustainable continued growth of the sector and diversification of product offer requires strong regulations and client protection mechanisms to ensure better controlled growth."

Comments from investors reveal that they also see a place for industry self-regulation alongside formal regulation. “Self-regulation should focus on doing no harm (especially tackling over-indebtedness) and promoting a dialogue of how MFIs can move towards sustainable banking in a broader sense,” writes investor Jacco Minnaar.

Naturally, investors look for growth, and this can be seen in the number of opportunities and obstacles on the investors’ list about expanding access. Mobile phone banking (5th), agent banking (7th), and national identification documents (10th) were ranked slightly higher by investors than by others. Els Boerhof from the Netherlands writes, “For the next growth stage of financial inclusion, most elementary are new ways of distributing products, via mobile phones or branchless banking. Only then can we achieve scale and penetrate deep into new territories.” On the obstacles side, insufficient infrastructure (5th) and product cost-structure (7th) highlight key growth barriers from the investor perspective.

Investors connect to financial inclusion primarily through microfinance institutions, and that explains the high rankings for limited institutional capacity among MFIs (4th) and microfinance capacity building (also 4th). Investors, like providers, see room for improvement within microfinance institutions. An investor from Mexico offers his view on what kind of capacity is most lacking in MFIs: “[T]he lack of technical skills and IT systems necessary to adequately manage financial risk is the single most destabilizing force in the market.”

Although a level removed from the client, investors, like providers, expressed concerns about limited understanding of clients. Marilou van Golstein Brouwers, of Triodos Investment Management, summarizes the case:

> In inclusive finance we need to focus on offering a diverse range of financial services that meet real needs of clients. This is essential for a sound and sustainable development of the sector. In that sense we do not see a tension between social mission and long term profitability. There can however be a tension between short term profit maximization and social mission; if focus is only on growth and profits, over-indebtedness of clients can be a result and focus on wellbeing of clients is lost. But if you turn it around; if the focus is on serving clients with good products and services that meet their needs, then profits will follow.

As an example, Tanir Helayel, a partner at PMD Capital, points to the value of understanding market segments. “Without the ability to differentiate clients, it’s extremely difficult to understand and price the risk associated with lending to different client segments. Therefore all clients are priced as the most risky. With a more developed data collection infrastructure such as credit bureaus, providers can begin to expand to lower risk client segments by offering less expensive credit.”

Nor do investors only want to understand the client for the sake of the financial bottom line. “If we better understood the impact of financial inclusion we’d more accurately market this impact to donors and investors thereby avoiding some of the current mismatch in expectations,” points out Caroline Bressan from Calvert Foundation. Better information on clients, not only in terms of needs, but also in terms of the impact of financial access, is crucial for achieving the goals of investors.

Investors prioritized several items higher than did other respondents: insufficient infrastructure, inadequate regulatory framework for providers to the poor, and national identification documents. These items represent key elements in the enabling environment, and investors look at them when assessing potential deals.

The items that investors ranked lower than other groups are equally interesting. The first one to stand out is microfinance transformation—something that in the past was encouraged because it was an entry point for investors. In the survey, however, it ranked 21st, well below the rankings by other groups (12th among providers and 18th among support organizations). Investors may feel that most MFIs that could benefit from transformation have already done so.

Lack of network cooperation is another item that investors ranked especially low (23rd compared to 14th for support organizations and 11th for providers). The item, which addresses the environment for electronic banking, is a reference to one of the key challenges for innovative scaling solutions, such as mobile phone banking, which investors ranked 5th.

Since investors are less involved in implementing these channels, they might be less concerned with practical implementation issues.

Items related to the strength of the microfinance industry, such as expansion and improvement of microfinance associations and having a weak industry voice, were also ranked lower by investors than others. It may be that investors are less concerned with the quality of the global microfinance industry as a whole because their work focuses on individual institutions and their market context.

3. Support Organizations Keep the Social Mission in Mind

Support organizations represent the biggest stakeholder group in the survey, with 121 respondents, 40 percent of the total. This group is heterogeneous—it includes microfinance associations and networks, raters, technical advisors, and others who specialize in assisting, assessing, or advising microfinance providers. Many members of support organizations work directly with providers. This heterogeneity creates a mixed list of opportunities and obstacles not easily aligned with a particular viewpoint. In addition, many support organizations work in more than one country and even region. Their combined perspective, therefore, can be considered to apply at the global, industry-wide level. Finally, because of their weight in the sample, the views of support organizations strongly influence the overall rankings.

The items that topped the support organization list track the overall responses in most ways, including the top items: financial literacy and education, expanding the range of products, client protection, and institutional capacity (Tables 2 and 3). Support organizations' top priorities are in step with the industry's efforts to steer itself back towards focusing on the client by strengthening clients' financial capability, ensuring that they are not inadvertently harmed by providers, and offering them diverse products.

Support organizations are responsible, in fact, for the overall top ranking of limited financial literacy as an obstacle. They ranked it 1st as an obstacle compared to 7th place for providers and 10th for investors. Lindsey Gleason, from ACCION, writes: "Options without education are dangerous and create opportunities to take advantage of the poor." Her comment highlights another clear priority for support organizations—client protection. Client protection regulation was the 2nd ranked opportunity for support organizations compared to 6th for providers. Inadequate client protection was the 4th ranked obstacle, compared to 7th for investors and 27th for providers. This range in the rankings for inadequate client protection was wider than for any other item. This points toward a need for honest dialogue among stakeholder groups to come to terms with industry practices: perhaps support organizations have exaggerated the client protection issue, or perhaps providers view their own and prevailing practices with complacency. In all likelihood, there is some truth in both views.

Microfinance's single-product approach was also ranked high as a problem by support organizations (2nd compared to 5th for investors and 8th for providers). One respondent from a support organization stresses the importance of expanding the range of products and what that would require. "The microfinance industry has been a mono-product for too long and generating a more holistic approach to meet the poor's financial needs requires far better demand-side information."

The rest of the top ten opportunities and obstacles of support organizations are similar to those of other groups, with one exception—poor business practices, which support organizations ranked 8th, higher than other groups. The survey defines poor business practices as "Financial institutions that poach staff and clients, use abusive collections practices, pursue excessive profits, and over-indebt clients hurt the whole industry." A number of respondents commented on the pursuit of excessive profits. Ruben de Castro de Lara from the SHED Foundation in the Philippines writes, "If you look at practitioners in financial inclusion, most if not all of them are driven by the profit opportunities they can generate by just rendering microfinance services. Nothing wrong about generating profits because viability is crucial. However, there is simply too much focus on profit at the expense of the poor."

De Lara's comment and others like it point toward the view that commercially oriented entrants are a reason for poor business practices, specifically because of the pursuit of excessive profits. Geetha Nagarajan

comments, "Poor business practices are going to be the 'major' obstacle for microfinance industry in future. This is partly due to new entrants with no clear understanding of microfinance and due to some industry actors that convey messages in a loud voice that microfinance is very profitable, microfinance can be commercialized and that commercialization means making profits in any way possible with not much of contextualization." The concern that "[c]ommercially oriented entrants tend to focus on the quick profit generation business" is also expressed by providers like Alice Lubwama from FINCA Uganda.

4. A Note on Regulators and Donors

Although the number of regulators (16) and donors (17) participating in the survey was too small to merit an in-depth comparison to other stakeholder groups, we took a quick look at how they responded.

The regulators who participated in the survey agreed with other respondents in placing financial education and financial literacy as the number one opportunity and obstacle, with nearly all the regulators selecting those items. Alternative delivery channels such as mobile and agent banking were also highly valued by the regulator respondents. Regulators, like others, saw little value in government initiatives for financial inclusion. Opportunities such as directed credit/service mandates, matched savings schemes, mandates to provide non-frills bank accounts, and linking government transfers to deposit accounts, all ranked near the bottom of the list.

Regulators ranked obstacles similarly to other groups in most respects—with issues focused on clients, institutional capacity, and costs ranked at the top. The biggest surprise among the regulator responses was their low ranking for microfinance's single-product approach as an obstacle—only three placed it in their top ten list. Their response suggests that regulators may have a broader financial inclusion perspective when considering microfinance crises like the one in Andhra Pradesh.

These results are in line with the findings of the member survey conducted by the AFI, an organization of regulators, in 2010. In the following quote from that survey we have inserted notes to indicate how the overall rankings from this survey coincide with the AFI survey findings.

> Emerging trends include the recognition that the role of policymakers is changing and leadership is important to successful financial inclusion strategies and response; that microfinance can be used as an entry point for improving access; that new technology (opportunity 3), is a very important but not the only consideration for developing country policymakers looking to improve access; that savings are the fundamental element of financial inclusion initiatives (opportunity 2); that banks have an important role to play in reaching the poor with their services (opportunity 21) and that financial inclusion policy should focus not only on supply concerns, but on consumer demand as well (obstacle 4 and opportunity 10).
>
> Commonly identified barriers include market response, the need for greater stakeholder coordination (obstacle 13), lack of reliable data (opportunity 10) and national identity documents and systems (opportunity 15), and the need for greater consumer understanding (obstacles 1 and 4), trust (obstacle 27), and protection (opportunity 5).[9]

The only significant divergence of message is the relatively higher ranking given to commercial banks as agents of financial inclusion, which reflects the regulators' strong focus on institutions they regulate, while our survey respondents are predominantly associated with smaller providers. Again, however, the small number of regulator responses makes any conclusion from this survey tentative.

For the 17 donors who completed the survey the prioritization of opportunities closely matches the overall rankings. On the obstacles side we see greater diversity. In particular, two obstacles that are ranked low by respondents as a whole—non-business-friendly environment (19th overall) and lack of interest by providers and policymakers (25th overall)—were placed in the top ten by many donors. On the other hand, donors ranked obstacles that are more closely related to operations near the bottom—client risk, costs of building branches, and lack of demographic information.

9. Alliance for Financial Inclusion, "The 2010 AFI Survey Report on Financial Inclusion Policy in Developing Countries," 2.

Part III. Similar Opportunities, Different Obstacles – Responses by Region[10]

1. Africa: Will Mobile Banking Leapfrog Infrastructure Challenges?

Among African respondents the top items were expansion of the product range and limited institutional capacity, both well ahead of the next-ranked items (Table 4). African respondents did not rank limited financial literacy and financial education in first place; however, at 2nd and 4th place they were still strongly prioritized. A typical comment, from John Muhimbise, a provider in Uganda, was: "The majority of the rural population are either illiterate or are of humble educational backgrounds. It is therefore difficult to convince them that financial services are for them as they wrongly believe they are for the well educated. Financial education is therefore absolutely necessary if this substantial segment is to be brought on board."

Within broad agreement with their colleagues around the world, African respondents offered a few special preoccupations. For example, infrastructure gaps took 3rd place, significantly higher than overall. These gaps were linked to the high cost of opening branches (6th in Africa). From Nigeria, financial service provider Pauline Nsa writes: "Insufficient infrastructure like electricity, water and transportation makes the cost of delivering financial services to the poor very expensive." From Tanzania, John Lwande, CEO of Akiba Commercial Bank, notes: "The costs of building/operating branches are generally high, the Bank of Tanzania's physical security policy renders branch infrastructure too expensive to set up, taking branches longer to break even and cater for a larger number of customers on a profitable basis." His message points not only to gaps in basic infrastructure, but also to regulations that value security over inclusion and that in all likelihood have not caught up with the alternatives to physical security that new technologies make available.

One particular infrastructure item shows up repeatedly: the problems caused by the lack of unique identification documents. Globally, this item ranked 15th as an opportunity and 24th as an obstacle, but in Africa, it was

Table 4. Survey Results: Africa

	OPPORTUNITY		OBSTACLE
1	Expanding the range of products (73)	1	Limited institutional capacity among microfinance institutions and other providers to the poor (68)
2	Mobile (phone) banking (62)	2	Limited financial literacy (59)
2	Capacity building for microfinance institutions (62)	3	Insufficient infrastructure (57)
4	Financial education (59)	4	Political interference (54)
5	Credit bureaus (54)	4	Lack of credit bureaus (54)
6	National identification documentation (49)	6	Costs of building/operating branches (51)
7	Client protection regulation (46)	7	Limited understanding of client needs (49)
7	Full-inclusion financial institutions (46)	8	Poor business practices (41)
7	Reaching out to new client groups (46)	9	Documentation requirements (38)
10	Strengthening financial infrastructure for electronic (non-cash) transactions (43)	10	Inadequate client protection (35)
		10	Product cost-structures (35)

Note: n = 37. Numbers in parentheses indicate the percentage of respondents placing an item in their Top Ten.

10. There is no section here on responses from Western Europe, Canada, and the United States. These responses track the overall responses, given their heavy weight in the survey. Moreover, respondents from these countries generally replied from a global rather than regional or national perspective. For more information on how each region's responses compare to the overall rankings of all respondents, see Appendix V.

the 6th opportunity and 9th obstacle. Many commentators addressed this problem. From Victoria Collins, with an enterprise development program for young women in Kenya: "One major obstacle for the girls' access to financial services is their lack of national identification cards which are required to open bank accounts in the formal banking system." From John Lwande: "In Tanzania credit bureaus would play a great role in streamlining selections, however this cannot easily be achieved without national IDs in place which would ensure that clients have a unique identification number cutting across all transactions." Furthermore, "The account opening requirements in a country like Tanzania, where there is no national IDs, no residence address system or in general street addresses makes it hard to fast track customers' account opening." From John Muhimbise in Uganda: "With no national identity cards it becomes difficult to trace borrowers as they simply default and disappear in thin air." It is important to note that the documentation problem has major effects on both savings and credit provision, as it inhibits account opening as well as the sharing of credit information.

While Africa lags on IDs, there is palpable excitement about mobile phones, the 2nd ranked opportunity. The advantages to clients are great. "My research on why only 3 percent of the population utilize financial institutions reveals that most users value convenience followed by cost of the services. With 30 percent of the population currently owning mobile phones, there is no better, more convenient and cost effective financial services delivery channel than a mobile phone," writes John Muhimbise, and his thoughts on the customer side are echoed by John Lwande, who points to the provider-side advantages, namely, allowing the bank to reach a lower-income population segment at a lower cost.

2. Asia: A Medley of Distinct Microfinance Markets

The financial inclusion landscape in Asia varies widely among countries. The Philippines and Cambodia have thriving microfinance sectors, India's microfinance is in crisis but other financial innovations are in the works, and China's state-controlled approach is unique. Diverse situations partly account for the lack of clear signals when Asian responses are aggregated.

The top ranks are very close (Table 5). Capacity building for microfinance institutions is ranked as the most important opportunity, with expansion of product range, financial education and credit bureaus close behind. On the obstacles side, three items tied for first place: limited financial literacy,

Table 5. Survey Results: Asia

	OPPORTUNITY		OBSTACLE
1	Capacity building for microfinance institutions (71)	1	Inadequate regulatory framework for providers to the poor (55)
2	Expanding the range of products (69)	1	Limited financial literacy (55)
3	Credit bureaus (67)	1	Limited understanding of client needs (55)
3	Financial education (67)	4	Political interference (52)
5	Client protection regulation (64)	4	Lack of credit bureaus (52)
6	Mobile (phone) banking (55)	4	Limited institutional capacity among microfinance institutions and other providers to the poor (52)
7	Full-inclusion financial institutions (52)	7	Inadequate client protection (48)
8	Improved regulation and supervision of microfinance (45)	7	Microfinance's single-product approach (48)
9	National identification documentation (40)	9	Product cost-structures (43)
9	Village savings and loan associations/self-help groups (40)	10	Poor business practices (40)
		10	Costs of building/operating branches (40)

Note: n = 42. Numbers in parentheses indicate the percentage of respondents placing an item in their Top Ten.

inadequate regulatory framework, and limited understanding of client needs. In fact, the results for Asia are quite similar to the overall results: the top seven opportunities are exactly the same in Asia as in the overall rankings, though in a slightly different order.

Only a few exceptions stand out. Asia was the only region to rank inadequate regulatory framework at the top of the obstacles list. A comment from Tomas Gomez of the Philippines, however, recognizes that regulators are moving forward:

> The creation of a Credit Bureau in the Philippines is already mandated by law, with private sector participation through equity investment…. We expect the company to be organized within the year. The Bangko Sentral ng Pilipinas (BSP) has very recently issued regulations that effectively allow banks of all sizes to execute correspondent banking activities. New regulations from the BSP also paves the way for a wider range of services for low-income segments.

Asian respondents were less likely than others to endorse commercial microfinance (ranking commercially oriented entrants 12th as an obstacle) and ranked competition lower as a driver of inclusion (16th compared to 13th). They see village savings and loans as a more exciting opportunity (9th compared to 17th overall). This may be linked to their recognition of population groups who are particularly hard to reach through formal means (reflected in the ranking of transient, migrant, and displaced populations 16th compared to last place overall). The effects of the Indian crisis can be seen in the relatively high rankings given to self-regulation and associations as opportunities and to negative press image as a problem.

Some countries in the region face unique situations. Consider this anonymous response from Afghanistan, reminiscent of earlier days in many countries when microfinance was a largely donor-driven activity.

> The problem in Afghanistan is not funds for on-lending but the ability to use the funds responsibly and on a sustainable basis. It is a constant battle to stop donors from pushing 'disbursement and outreach' when a functioning pipeline doesn't exist. One large program designed to provide financial access to rural areas and agricultural enterprises in particular, was originally envisioned as working through the existing financial service providers e.g. commercial banks, MFIs, etc. Given no providers were offering agriculture-related products, had an infrastructure to distribute or ability to judge quality of borrowers or enforce repayment (not to mention geography), there were no willing and qualified institutions to partner with this program in a meaningful manner.

The inclusion of a great number of responses from India undoubtedly influences the Asian rankings, so we took a closer look (see Box on page 28).

3. Latin America and the Caribbean: Sub-Regions Face Different Realities

Latin American respondents agreed with their peers in the rest of the world on the core messages. They strongly endorsed financial education as the number one opportunity (Table 7). More broadly, they emphasized better understanding of and response to client needs. The consensus about financial education among South American respondents was especially high, with 86 percent selecting it. This focus on financial education is seen as closely linked to the two challenges of reaching still-unserved groups and broadening the product range. Jose Luis Aguela, from a support organization in Peru, states: "Financial education is very important for expanding the product range, so that clients understand and will use the products wisely."[11]

Within the broad consensus about client needs and product range, however, Central and South America offer divergent perspectives. South America emerges as a mature market facing the stresses that come with a more advanced phase of industry development. It has moved beyond the basics of building a microfinance industry and is now focused on specific competitive and mission-related challenges. In the face

11. Comment translated from Spanish.

India: Still Reeling from the Andhra Pradesh Crisis

Table 6. Survey Results: India

OPPORTUNITY	OBSTACLE
1 Expanding the range of products (72)	1 Political interference (72)
1 Financial education (72)	2 Inadequate regulatory framework for providers to the poor (61)
3 Client protection regulation (67)	2 Microfinance's single-product approach (61)
4 Capacity building for microfinance institutions (61)	4 Lack of credit bureaus (56)
4 Credit bureaus (61)	4 Limited financial literacy (56)

Note: n = 18. Numbers in parentheses indicate the percentage of respondents placing an item in their Top Ten.

Operating at the epicenter of the events that have shaken microfinance, respondents from India are attempting to come to terms with the causes of and potential solutions to their crisis.[a] While the opportunities they see echo the worldwide view (product range, financial education, client protection regulation, MFI capacity building, and credit bureaus), the top obstacles might even be considered a self-diagnosis of what went wrong in Andhra Pradesh (Table 6).

It's no surprise that political interference leads the way, followed by inadequate regulation for microfinance and the mono-product approach. There's a succinct apportionment of blame: the crisis was caused by political interference made possible by inadequate regulation that channeled microfinance to take a single-product focus. The next five items (absence of a credit bureau, low levels of financial literacy, lack of understanding of client needs, inadequate client protection, and poor business practices) further laid the basis for the crisis. Other crisis-linked obstacles that scored significantly higher in India than in other regions include negative press image (10th) and unsustainable growth (12th).

The top-ranked opportunities comprise a to-do list of priorities for building a more client-friendly microfinance industry: widening the product range, educating clients, improving client protection, creating credit bureaus, and strengthening the capacity of MFIs. (Though it is ironic to note that weak institutional capacity of MFIs, ranked globally in 2nd place, was only 16th in India.)

At the same time, Indian microfinance is attempting to better organize itself to patrol market conduct, ensure client protection, and interface effectively with regulators. Self-regulation and strengthened microfinance associations came in both at 9th among opportunities, much higher than in other regions.

Only after dealing with these crisis-linked issues do the longer term opportunities and challenges in India arise. The top technology-assisted effort is national identification (in 6th place), which is linked to the pressing need for credit bureaus (4th). Self-help groups are also relatively high on the opportunity list (12th). On the obstacles side, India is one of the only places where transient and displaced populations (12th) appear as significant. Branchless banking through mobile phones (11th) and banking agents (12th) is still relevant, but these have fallen well below their rankings in most other regions.

Finally, in a country where public sector banks dominate the financial landscape, and where the regulators have not hesitated to give banks mandates on how to operate, the respondents to this survey gave very low marks to government initiatives (state bank reform; no-frills account mandates), with the exception of matched savings and cash transfer schemes (18th). In the country where priority sector lending requirements have fueled microfinance growth, not one Indian respondent chose directed credit among the top ten opportunities, placing it at the very bottom rank.

a. In November 2010, reports of client over-indebtedness in southern India's rapidly growing microfinance sector prompted controversial new regulation by the Reserve Bank of India to curtail unsustainable growth.

of high competition and the saturation of some markets, South American providers are concerned about reducing costs and finding market segments that have not yet been well served. For example, Ramón Larrea notes: "Peru is a big market, but sufficiently attended in the main cities."[12] He advocates pushing out from the highly contested cities into the rural areas, as do a number of his peers.

12. Comment translated from Spanish.

Table 7. Survey Results: Latin America

SOUTH AMERICA			
OPPORTUNITY		**OBSTACLE**	
1	Financial education (86)	1	Limited financial literacy (70)
2	Correspondent/Agent banking (70)	2	Product cost-structures (62)
3	Capacity building for microfinance institutions (59)	3	Lack of network cooperation (51)
4	Client protection regulation (57)	3	Costs of building/operating branches (51)
4	Mobile (phone) banking (57)	5	Political interference (49)
6	Full-inclusion financial institutions (54)	5	Inadequate regulatory framework for providers to the poor (49)
7	Improved regulation and supervision of microfinance (51)	5	Limited understanding of client needs (49)
8	Credit bureaus (49)	8	Insufficient infrastructure (46)
8	Expanding the range of products (49)	8	Microfinance's single-product approach (46)
10	Competition (46)	10	Poor business practices (41)

CENTRAL AMERICA AND THE CARIBBEAN			
OPPORTUNITY		**OBSTACLE**	
1	Financial education (72)	1	Limited understanding of client needs (72)
1	Expanding the range of products (72)	2	Limited institutional capacity among microfinance institutions and other providers to the poor (59)
3	Credit bureaus (69)	2	Product cost-structures (59)
4	Correspondent/Agent banking (66)	4	Insufficient infrastructure (53)
5	Capacity building for microfinance institutions (59)	5	Lack of credit bureaus (50)
6	Full-inclusion financial institutions (50)	6	Microfinance's single-product approach (47)
7	Improved regulation and supervision of microfinance (47)	7	Limited financial literacy (41)
8	Improved demand-side information (44)	7	Costs of building/operating branches (41)
8	Expansion and improvement of microfinance associations (44)	7	Political interference (41)
8	Microfinance transformation (44)	7	Weak legal infrastructure (41)
		7	Inadequate regulatory framework for providers to the poor (41)
		7	Poor business practices (41)
		7	Appropriate funding (41)

Note: South America: n = 37; Central America and the Caribbean: n = 32. Numbers in parentheses indicate the percentage of respondents placing an item in their Top Ten.

The main obstacle to rural outreach, however, is cost. Cost issues ranked 2nd and 3rd among South American respondents, much higher than in other regions. The costs of reaching out to rural areas are daunting, and include physical infrastructure, which is seen as a major barrier (8th). In Paraguay, for example, "We should note the great insecurity that persists in Paraguay, which requires great costs for investment in metal detector entryways, guards in all the branches, high costs for transporting cash, etc," writes Teresa Rivarola de Velilla.[13]

The need for rural expansion and its attendant costs help explain the high hopes for agent and mobile phone banking, the 2nd and 4th top opportunities in South America. In this region (and Central America and the Caribbean), unlike others, agent banking

13. Comment translated from Spanish.

ranks higher than mobile phone banking. This is not surprising, given that the agent model originated in Brazil and spread to other South American countries, while mobile phone banking has yet to take off in any country on the continent. Among the constraints now preventing the expansion of agent and mobile banking is a lack of network cooperation, an item that appears as the 3rd greatest obstacle in South America, though it is only ranked 13th overall.

Respondents from South America were less likely to cite the basic building blocks of the industry as significant obstacles. Limited MFI capacity, the 2nd top obstacle globally, was only 11th among South American responders. The lack of credit bureaus, 6th overall, was 21st, and other legal infrastructure items, including national identification documentation, and collateral and secured transactions reform, were all near the bottom of the list. Inadequate client protection, 10th overall, was 26th in South America. Microfinance institution transformation was a low opportunity – 20th. Presumably, the low rankings indicate that these basic challenges have been solved.

At the same time, however, capacity building for microfinance institutions still ranks high as an opportunity, as does client protection regulation. Explanations for the discrepancy can be gleaned from comments. For example, capacity building is needed in specialized areas such as staff training. Teresa Rivarola de Velilla, who operates an MFI in Paraguay, writes: “To develop good financial services in low-income zones we have to make important investments in the training of staff, including attitude as well as aptitude.”[14] A respondent from Peru mentions the need for improved credit technologies that work well during periods of high risk, in the aftermath of the global financial crisis.

In the case of client protection, the discrepancy may be that while respondents believe they treat clients well, they are worried about other providers and would like regulation to establish a level playing field. Some respondents mentioned interest rate transparency as an important gap, as well as concerns over looming interest rate caps.

14. Comment translated from Spanish.

The fear of interest rate caps reflects a more general concern about the relationship between microfinance and political actors. Political interference ranked as the 5th most important obstacle in South America. But there are some unconnected dots here: negative press image was dead last, cited as a key obstacle by only one person in the region. Similarly, weak industry voice was in the second half of the obstacle list. This suggests that while participants in the sub-region are concerned about political interference, the interference has not been stoked by the press, as in India. It also suggests that participants do not see much advantage in raising the voice of the industry or initiating self-regulation as a way to counter political interference.

Central America and the Caribbean present a different picture. The stresses of competition and political interference are present, but these stresses are challenging an industry that is not so well developed. Microfinance institutions in Central America are facing as much pressure as their peers in South America, but are less prepared for it. Among the top ten obstacles, in addition to the ubiquitous limited understanding of client needs, are the following institutional and market basics: limited institutional capacity of MFIs (2nd), insufficient infrastructure (4th), lack of credit bureaus (5th), an inadequate regulatory framework (7th) and lack of appropriate funding (also 7th). Central America is the only region placing microfinance transformation and funding in the top ten. Surprisingly, in this region lack of financial literacy was not top-ranked; it shares 7th place with several other items. In Central America, it appears, the basic gaps are so pressing that they crowd out financial literacy.

At the same time, Central America faces cost pressure (2nd and 7th). Mercedes Canalda, the CEO of ADOPEM, a leading MFI in the Dominican Republic, notes the high operating costs, including a lack of basic infrastructure that requires the purchase of electricity generators for each branch.[15] Tanir Helayel, an investor, comments on better credit risk management fueled by credit bureaus as a response to competitive pressure: “With a more developed data collection infrastructure such as credit bureaus, providers can begin to expand to lower risk client segments by offering less expensive credit.”

15. Comment translated from Spanish.

Political interference (7th) is also present in the sub-region, though not as strongly as in South America. Apparently, the political problems of Nicaragua have not seriously affected microfinance in neighboring countries. The region has high hopes for the banking agent model (4th), but is not yet focused on mobile phone banking (13th).

4. Other Regions: Middle East and North Africa; Eastern Europe and Central Asia

Although the survey responses from the Middle East and North Africa (MENA) and Eastern Europe and Central Asia (EECA) regions were too few (9 and 10, respectively) to merit significant analysis, we took a quick look at them.

The top opportunities in the MENA region include client protection regulation, expanding the range of products, and credit bureaus. Top obstacles are inadequate client protection and limited financial literacy. Agent banking is not seen as a relevant opportunity. Surprisingly, for a region with younger microfinance institutions, limited institutional capacity among MFIs only received 1 vote from MENA respondents.

In EECA, credit bureaus topped the opportunity list, followed closely by improved regulation and supervision of MFIs. The highest-ranked obstacles were unique for this region: after limited financial literacy, respondents from EECA placed commercially oriented entrants, appropriate funding, and financial regulatory priorities as the next-most important barriers to inclusion.

It is difficult to draw conclusions with this small sample size, but these responses may point toward questions that can help develop greater understanding about financial inclusion in these unique regions.

Mexico: Excitement About Agent Banking

Table 8. Survey Results: Mexico

OPPORTUNITY	OBSTACLE
1 Correspondent/Agent banking (85)	1 Limited understanding of client needs (80)
2 Credit bureaus (80)	2 Limited institutional capacity among MFIs and other providers to the poor (60)
3 Expanding the range of products (75)	2 Product cost structures (60)
4 Financial education (65)	2 Insufficient infrastructure (60)
5 Capacity building for microfinance (55)	5 Lack of credit bureaus (55)
5 Competition (55)	

Note: n = 20. Numbers in parentheses indicate the percentage of respondents placing an item in their Top Ten.

According to responses from Mexico, agent banking is the greatest opportunity for financial inclusion (Table 8). Mexican authorities recently released agent banking regulations, unleashing a spate of activity from financial institutions to be the first to develop strong agent networks. Mexicans strongly favor agent banking over mobile phone banking, which ranked only 15th. This may reflect both the status of regulation for mobile banking, and concerns about the coverage of cell phone networks in rural Mexico. The quest to create technology-enabled delivery channels is also reflected in the relatively high rankings given to insufficient infrastructure and regulation lagging technology as obstacles.

Mexican respondents have greater confidence in competition as a driver of inclusion than most others, ranking it 5th, while in the global rankings competition placed 13th. They are still interested in microfinance transformations, possibly due to the introduction of the SOFIPO and other new regulatory categories; institutions are still contemplating what organizational form they aspire to take. Inadequate client protection ranked low, possibly reflecting the work of CONDUSEF, the consumer protection agency in Mexico, one of the better-developed regulatory efforts around the world. And financial literacy also ranked only 10th as an obstacle, though financial education still scored high as an opportunity. A final anomaly: in a country with demographic data available down to the last town block, lack of demographic data ranked 8th as an obstacle, far higher than it did in other places. Those who have data, it seems, want more.

Appendix I. The Survey Items and Their Definitions

Appendix Table 1. Definitions: Opportunities

Building investor markets – Promoting private investment funds that responsibly provide debt and equity to financial institutions serving the poor.
Capacity building for microfinance institutions – Improving microfinance management, governance, systems and operations.
Client protection regulation – Regulatory systems are established to ensure that providers are transparent with respect to pricing, avoid over-indebting their clients, and treat clients fairly.
Collateral and secured transactions reform – Providing a stronger legal framework for lending through collateral registries, property rights reform, and improved court processes.
Commercial bank downscaling – Commercial banks install operations to serve lower-income clients, either in their own organizations or by creating subsidiaries.
Competition – Many financial institutions vying to serve a limited clientele can improve the prices and quality of products.
Correspondent/Agent banking – Using existing retailers and retail networks (e.g. post offices, gas stations, etc.) as banking agents to cut providers' costs and help them expand to rural and remote areas.
Credit bureaus – Enabling financial institutions to share information on borrowers' repayment histories and total debt.
Directed credit/service mandates – Policies requiring providers to target certain products or client segments, such as Priority Sector Lending requirements in India and CRA in the US.
Expanding the range of products – Development of new products for the poor such as: affordable housing finance, micro-insurance, savings, and loans for education, agriculture, and energy.
Expansion and improvement of microfinance associations – Industry associations can provide consumer and public education services, improve the industry's public relations and lobbying capacity, and provide a venue for pursuing sector-level projects.
Financial education – Teaching clients how to manage financial resources, use services appropriately, and understand their consumer rights.
Full-inclusion financial institutions – Microfinance and other financial institutions provide a full product range to lower-income clients: credit, savings, insurance, and payments.
Improved demand-side information – Information on who lacks financial access and what kind of services they need.
Improved regulation and supervision of microfinance – And other financial institutions oriented to the low-income market.
Linking government transfers to deposit accounts – Delivery of government benefits through deposit accounts or ATM cards to encourage new client outreach.
Mandates to provide no-frills bank accounts – Governments require banks to offer low-income clients a simple product without a minimum deposit balance or maintenance fee.
Matched savings and/or cash transfer schemes – Programs that incentivize savings by contributing an amount to a savings account that depends on the amount put away by the saver.
Microfinance transformation – Turning non-profit microfinance institutions into licensed financial institutions to allow them to provide more services and tap the capital markets to fund growth.
Mobile (branch) banking – The use of transportable banking outlets (e.g. "banks on wheels") to reach rural or remote location with thin population density.
Mobile (phone) banking – Creation of mobile money and use of mobile phones to conduct financial transactions.
National identification documentation – Providing identification for all citizens to help individuals easily open a bank account, register with a credit bureau, or take out a loan.
Non-traditional providers – Major corporations (non-financial) (e.g. Wal-Mex, Cemex, Western Union) can offer financial services to their customers.
Product bundling and cross-selling – Practices in which providers group services (e.g. selling insurance together with credit) or sell existing clients a new product (e.g. marketing savings to borrowers) to decrease costs of offering new products.
Prudential regulation and supervision (in general) – Preventing bank failures, inflation, and unreliable financial markets lays the foundation for inclusion.
Reaching out to new client groups – Child and youth, rural and remote, disabled, marginalized groups, etc.
Self-regulation – Institutions that allow microfinance institutions to develop commonly agreed-upon standards and monitor themselves for compliance without requiring formal government oversight.
State bank reform – Making government-owned banks that serve the poor more financially viable and improving the quality of their services.
Strengthening financial infrastructure for electronic (non-cash) transactions – Making ATMs and POS devices more cost-efficient and user-friendly (e.g. multilingual or deposit-taking ATMs).
Village savings and loan associations/self-help groups – Local, informal groups (that save and lend to each other) can meet financial needs when formal providers cannot.

Appendix Table 2. Definitions: Obstacles

Appropriate funding – Lack of funding in appropriate forms from a reliable mix of local and international sources. This would include foreign exchange risk problems.

Client risk – Many currently excluded segments are not suitable clients for financial services.

Commercially oriented entrants – Actors lacking social motivation that enter either as investors (e.g. private equity funds) or as providers (e.g. consumer lenders) deflect financial inclusion efforts from focusing on benefiting clients.

Costs of building/operating branches – High fixed and running costs make branches an expensive delivery channel for poor neighborhoods and sparsely populated areas.

Documentation requirements – Policies for opening accounts or borrowing (e.g. Anti-Money Laundering/Know Your Customer policies) create barriers for poor people who lack required forms of identification.

Financial regulatory priorities – Prudential regulation that prioritizes stability over access may tilt service providers away from pursuing inclusion.

Impact of financial inclusion – Lack of evidence that access to financial services alleviates poverty.

Inadequate client protection – Client protections ensuring that services are transparent, fair, and appropriate for their customers are not well-developed among providers or regulators.

Inadequate regulatory framework for providers to the poor – Weak regulation and supervision of microfinance institutions and other institutions dedicated to serving the poor, such as policies preventing them from taking deposits.

Insufficient infrastructure – Underdeveloped transportation, communication, and power grid structures limit delivery of financial services in rural and remote areas.

Lack of credit bureaus – Insufficient information about borrowers' debt and repayment history limits providers' ability to assess repayment capacity, discouraging them from serving new, poorer clients.

Lack of demographic information on the excluded – Insufficient demographic and geographic data about the financially excluded prevents appropriate action.

Lack of interest by providers and policymakers – Providers may not try to reach low-income clients because they do not believe that the poor can be viable clients. Policymakers may not promote inclusion if they do not value it.

Lack of network cooperation – Delivery channels like mobile banking and correspondent banking need a critical level of participation (by agents, telecoms, clients, etc.) or interoperability to generate value.

Limited financial literacy – Prospective clients lack knowledge about comparing and using financial services, running a business, and personal finance.

Limited institutional capacity among microfinance institutions and other providers to the poor –Many institutions that serve low-income clients face staff, management, and governance constraints that keep them from developing fully.

Limited know-how of mainstream providers – Mainstream financial service providers lack sufficient understanding of how to design, price, and market financial services to low-income people.

Limited understanding of client needs – There is too little market research about the financial elements of clients' lifestyles—such as cash flow and asset accumulation—to promote the design of valuable services.

Microfinance's single-product approach – Microfinance is overwhelmingly microcredit; many microfinance institutions have been unable to significantly broaden their product range.

Negative press image – Unfavorable criticism of microfinance casts doubts on financial inclusion as a legitimate development effort.

Non-business-friendly environment – Corrupt officials, stifling bureaucracies, and political instability prevent institutions from forming and growing.

Political interference – Politicians advocate harmful policies for political gain; no-repayment movements or debt protests hinder operations of financial service providers.

Poor business practices – Financial institutions that poach staff and clients, use abusive collections practices, pursue excessive profits, and over-indebt clients hurt the whole industry.

Product cost-structures – Current operating and delivery methods involve high costs; this results in high prices for low-income clients (sometimes prohibitively so) and inhibits service provision to the poorest and most remote market segments.

Public mistrust of financial institutions – Bank failures, unethical practices, and cultural paradigms (e.g. formal banks are for the better-off) make the poor avoid formal institutions.

Regulation that lags technology – Regulation and supervision that do not keep pace with (and therefore slow the spread of) new technologies.

Transient, migrant, displaced populations – People who move frequently are difficult to serve with current products, methodologies, and delivery channels.

Unsustainable growth – Rapid growth in already well-covered areas instead of developing new markets that still lack low-income finance providers.

Weak industry voice – The providers of financial inclusion are not organized to advocate effectively for their interests with policymakers or to set standards for themselves.

Weak legal infrastructure – Weak courts and poorly defined and/or enforced property rights and contractual agreements make it risky or costly for providers to serve low-income clients.

Appendix II. The Survey and Who Took It

The survey presented two lists—an opportunities list and an obstacles list. Each contained 30 items. Respondents were asked to select, but not rank, the most important ten items in each list. In a second step, respondents were asked to select the three items from their own top ten that they judge most important. The top ten question aimed to gauge which opportunities and obstacles are perceived as generally important, while the top three question sought to identify items perceived as more urgent.

The diversity of opinion about the 30 opportunities and obstacles was great. All of the items were perceived by individuals as important (meaning that all items were selected by at least some respondents in their top ten). The answers to the top three question are even more widely dispersed, show even less consensus, and are not as telling. The analysis in this report focuses on how people answered the top ten question, unless noted.

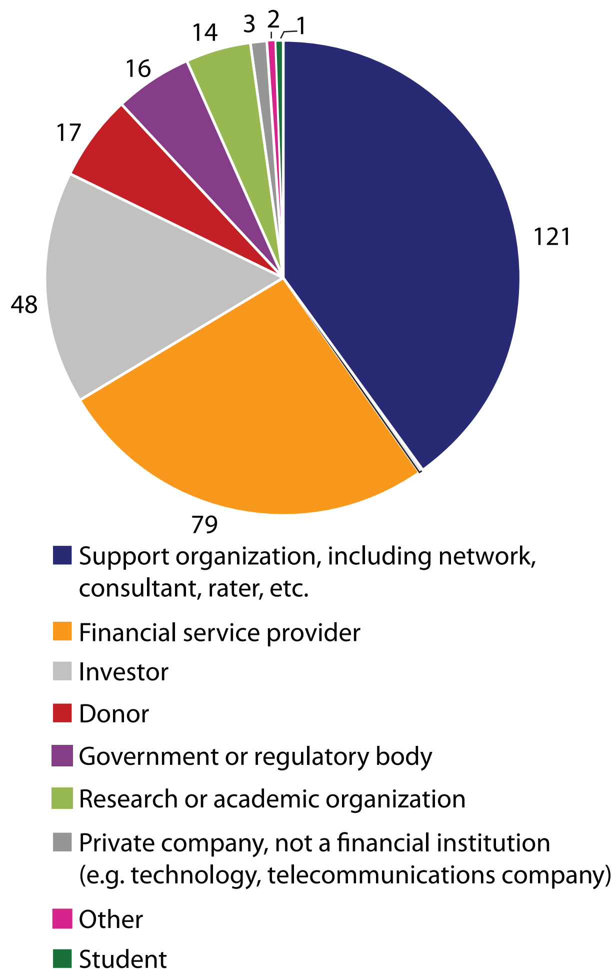
The survey was in English, Spanish, and French. There were 301 complete responses, and they form the basis for the results presented here. It was carried out from January through March, 2011.

In keeping with the stakeholders with whom the Center for Financial Inclusion works most often, most of the 301 people who answered this survey work in microfinance institutions or in the organizations that invest in, promote, advise, or analyze microfinance institutions. Thus, these results should be seen as representing the voice of the microfinance industry, rather than everyone associated with financial inclusion.

Respondents by Industry

The biggest group of respondents, with 121 responses, came from "support organizations" (see Appendix Figure 1). Support organizations include consultants, networks, technical assistance providers, raters, and other organizations that provide resources, assistance, or advice.

Appendix Figure 1. Respondents by Industry

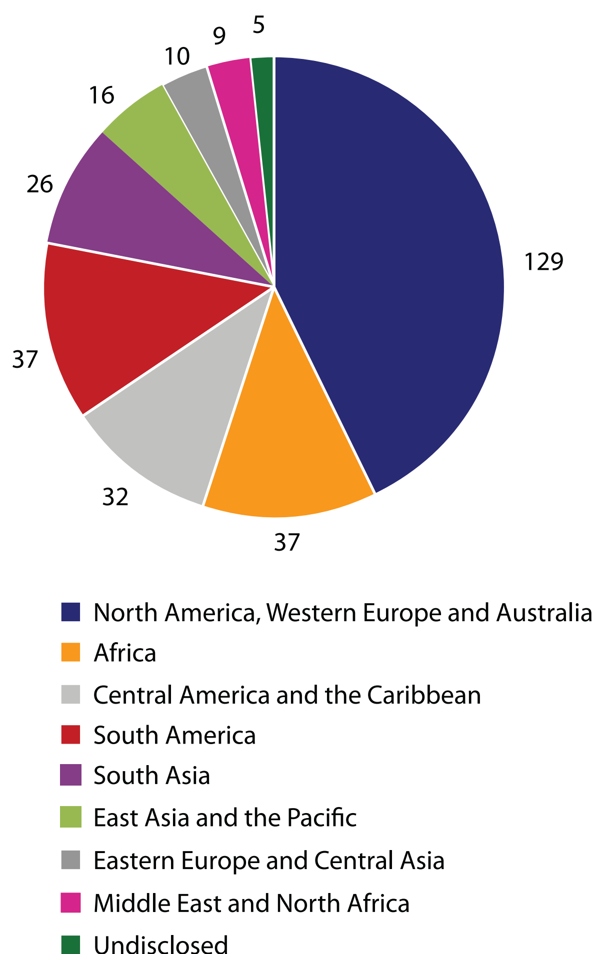


Note: n = 301.

The second-biggest group was practitioners, or direct providers of financial services, with 79 responses. The majority of practitioners (75 percent) represented in the survey are microfinance institutions, relatively evenly split between regulated MFIs and non-profits. The rest of the providers are commercial banks (18 percent), cooperatives (3 percent), and other (5 percent).

The third group, with 48 responses, was investors. There is good representation of both debt and equity investors. Donors (17), regulators (16), and academics (14) together make up 16 percent of respondents, and a handful of non-financial service providers (e.g. technology companies) and others round out the rest of the participants.

Appendix Figure 2. Respondents by Region



Note: n = 301.

Respondents by Region

The respondents came from 67 countries. The majority were from the United States, Canada, Western Europe, and Australia (129). The second-biggest regional group represented is Latin America with 37 respondents from South America and another 32 from Central America and the Caribbean. In Asia, there were 26 respondents from South Asia and 16 from East Asia and the Pacific. Ten survey participants came from Eastern Europe and Central Asia. Africa brought in 37 responses; another 9 came from the Middle East and North Africa.

Additionally, respondents were asked to state if their work took on a global, regional, or national perspective and were instructed to apply that perspective in their rankings. Nearly all the respondents from North America and Western Europe were support organizations or investors and stated that they have a global perspective. Another way to view to the results is that nearly half of respondents gave rankings applicable to the global financial sector while the rest based their responses on the local realities of their region or nation.

The survey is not a rigorous scientific survey. Its results should be seen as indicative rather than conclusive, as is consistent with its primary aim, to spark discussion and debate.

Reading the Rankings. In analyzing responses, we determined the rankings presented here based on the number of people who placed a given item in their top ten group. To illustrate: financial education was the most popular opportunity, since 199 of the 301 respondents (66 percent) placed it among their top ten opportunities. The second-most popular opportunity, expanding the range of products, was selected by 197 participants (65 percent). The ten highest ranked opportunities and obstacles were selected by at least 40 percent of all respondents (with one exception). Thus, while there are a number of very clear messages, readers should keep in mind that there was also a wide range of opinion among responses.

We checked responses by looking at the top three rankings (see Appendix III). This question was intended to compensate for the possibility that an item might be ranked high overall because many people thought it somewhat important, even though it was not of greatest importance. As it turned out, the top three and top ten rankings were very similar, particularly for opportunities. The number one opportunity overall, financial education, was also the lead opportunity in the top three, as it was placed in the top three by 32 percent of all respondents. The number two opportunity (mobile phone banking) was chosen by only 23 percent of respondents. There were a few shifts in sequence, but most of these were not of great moment: mobile phone banking, for example, ranked 3rd overall (top ten), but 2nd among the top three, showing some intensity of opinion about the outlook for mobile banking but not changing the picture significantly.

Among obstacles, the top ten and top three differed somewhat more, in keeping with the general greater diversity of opinion about obstacles. The number one obstacle among the top three rankings was political interference, selected as a top three by 21 percent of respondents. Given that this item ranked only 5th in the overall top ten rankings, the likely message is that in those countries where political interference is a factor, industry participants are highly concerned, while in many or most countries, such interference is simply not present.

Many people took the time to explain their answers in written comments. These comments assist interpretation and add greatly to the richness of the results. Many comments illustrate the interconnections between items on the list. In this report we have at times taken the liberty of editing spelling and punctuation, recognizing that survey-takers may not focus on dotting every "i" and crossing every "t".

Appendix III. Results from the 'Top Three' Question

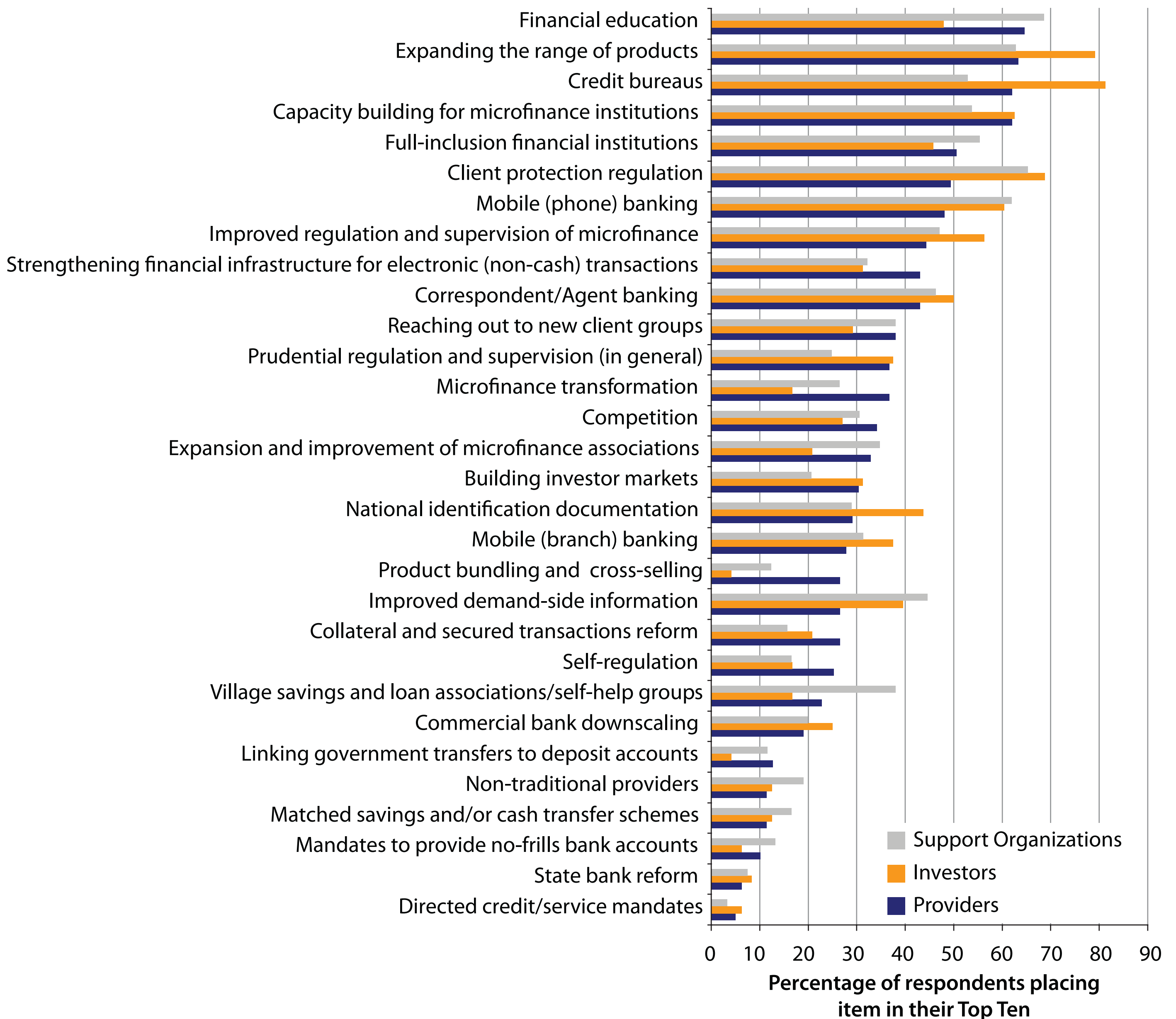
Appendix Table 3. Survey Results: Responses to 'Top Three' Question

	OPPORTUNITY		OBSTACLE
1	Financial education (1)	1	Political interference (5)
2	Mobile (phone) banking (3)	2	Limited understanding of client needs (4)
3	Expanding the range of products (2)	3	Limited institutional capacity among microfinance institutions and other providers to the poor (2)
4	Client protection regulation (5)	4	Inadequate regulatory framework for providers to the poor (8)
5	Capacity-building for microfinance institutions (6)	5	Limited financial literacy (1)
5	Credit bureaus (3)	6	Product cost-structures (7)
7	Correspondent/Agent banking (9)	7	Microfinance's single-product approach (3)
8	Improved regulations and supervision of microfinance (8)	8	Poor business practices (11)
9	Full-inclusion financial institutions (7)	9	Insufficient infrastructure (9)
10	Improved demand-side information (10)	10	Unsustainable growth (17)
11	Reaching out to new client groups (12)	11	Lack of credit bureaus (6)
12	Prudential regulation and supervision (13)	12	Inadequate client protection (10)
13	Building investor markets (20)	13	Appropriate funding (15)
14	Village savings and loan associations/self-help groups (17)	14	Costs of building/operating branches (12)
14	Competition (13)	15	Financial regulatory priorities (21)
16	Mobile (branch) banking (15)	16	Commercially orientated entrants (18)
17	Expansion and improvement of microfinance associations (17)	17	Regulation that lags technology (20)
18	National identification documentation (15)	17	Client risk (28)
18	Strengthening financial infrastructure for electronic (non-cash) transactions (11)	19	Weak legal infrastructure (13)
18	Microfinance transformation (19)	20	Lack of network cooperation (13)
21	Collateral and secured transactions reform (22)	21	Impact of financial inclusion (23)
22	Commercial banking downscaling (21)	21	Limited know-how of mainstream providers (15)
23	Matched savings and/or cash transfer schemes (24)	23	Weak industry voice (26)
24	Linking government transfers to deposit accounts (26)	23	Non-business-friendly environment (19)
24	Self-regulation (23)	25	Documentation requirements (24)
26	Non-traditional providers (25)	26	Negative press image (29)
27	Mandates to provide no-frills bank accounts (28)	27	Lack of interest by providers and policymakers (25)
28	Product bundling and cross-selling (26)	28	Lack of demographic information on the excluded (21)
28	State bank reform (29)	29	Public mistrust of financial institutions (27)
30	Directed credit/service mandates (30)	30	Transient, migrant, displaced populations (30)

Note: n=301. Numbers in parentheses indicate the percentage of respondents placing an item in their Top Ten.

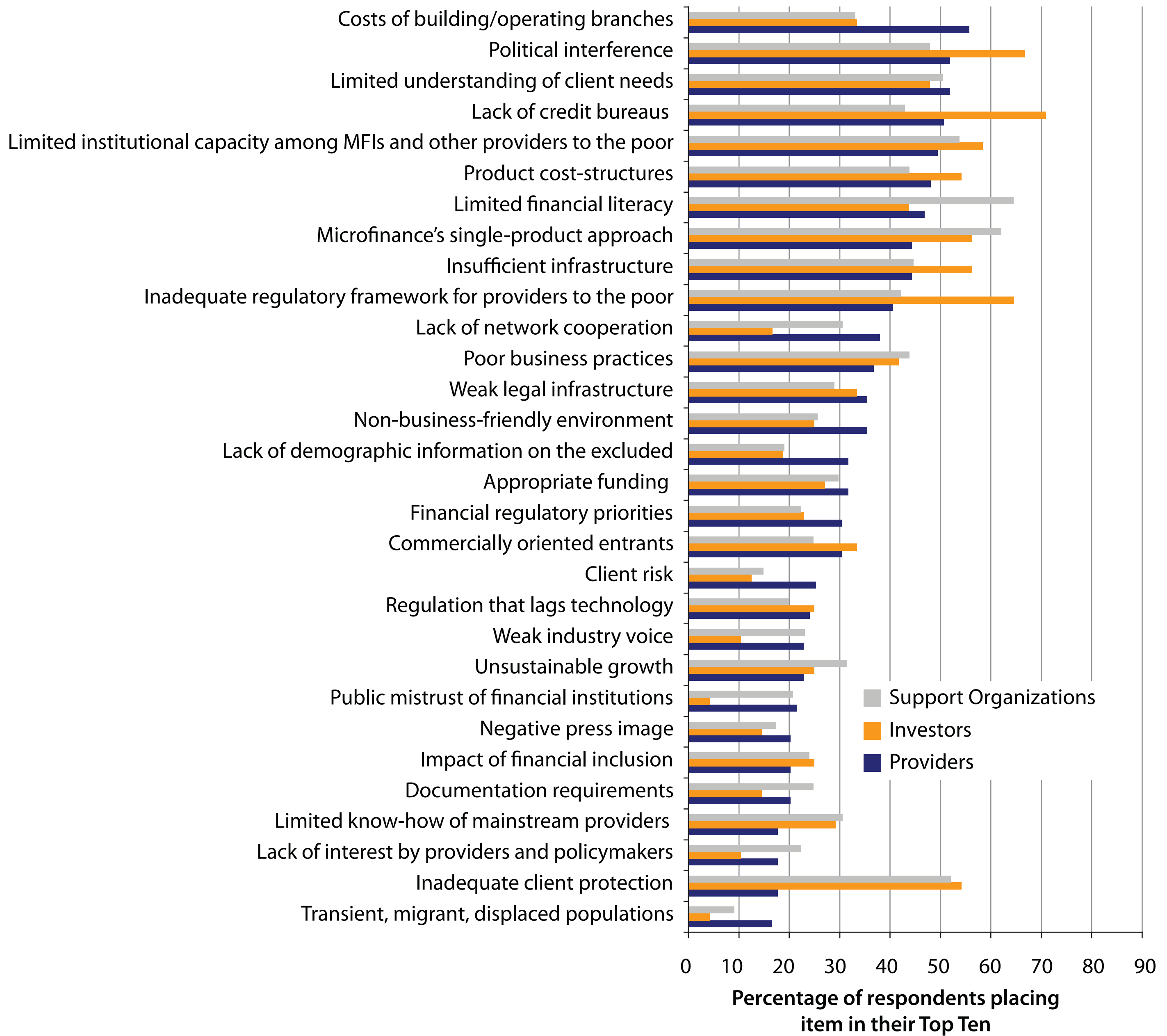
Appendix IV. Results by Stakeholder Group

Appendix Figure 3. Survey Results: Opportunities by Stakeholder



Note: n=248. MFIs = microfinance institutions. Opportunities are listed in order of the providers' rankings.

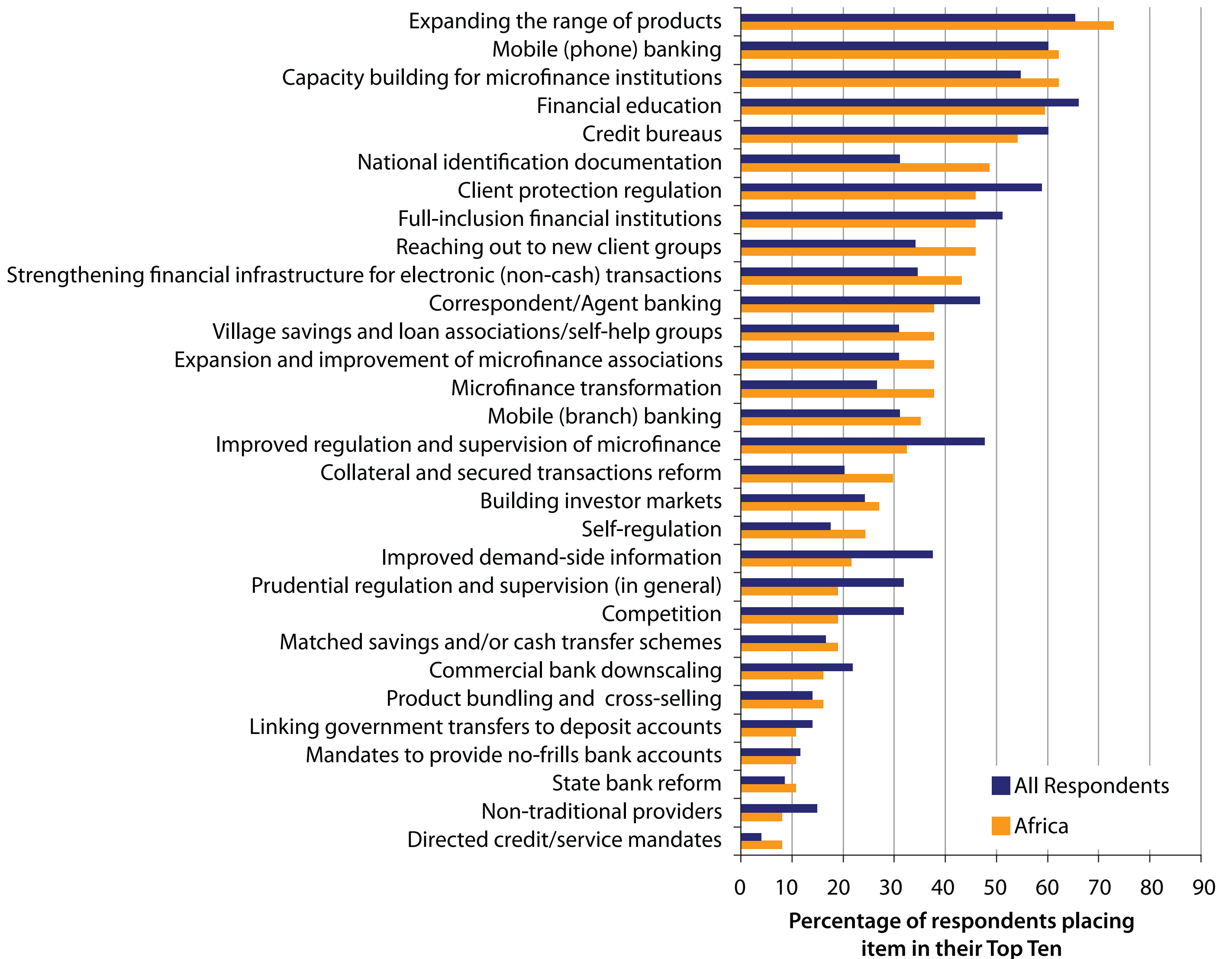
Appendix Figure 4. Survey Results: Obstacles by Stakeholder



Note: n=248. MFIs = microfinance institutions. Obstacles are listed in order of the providers' rankings.

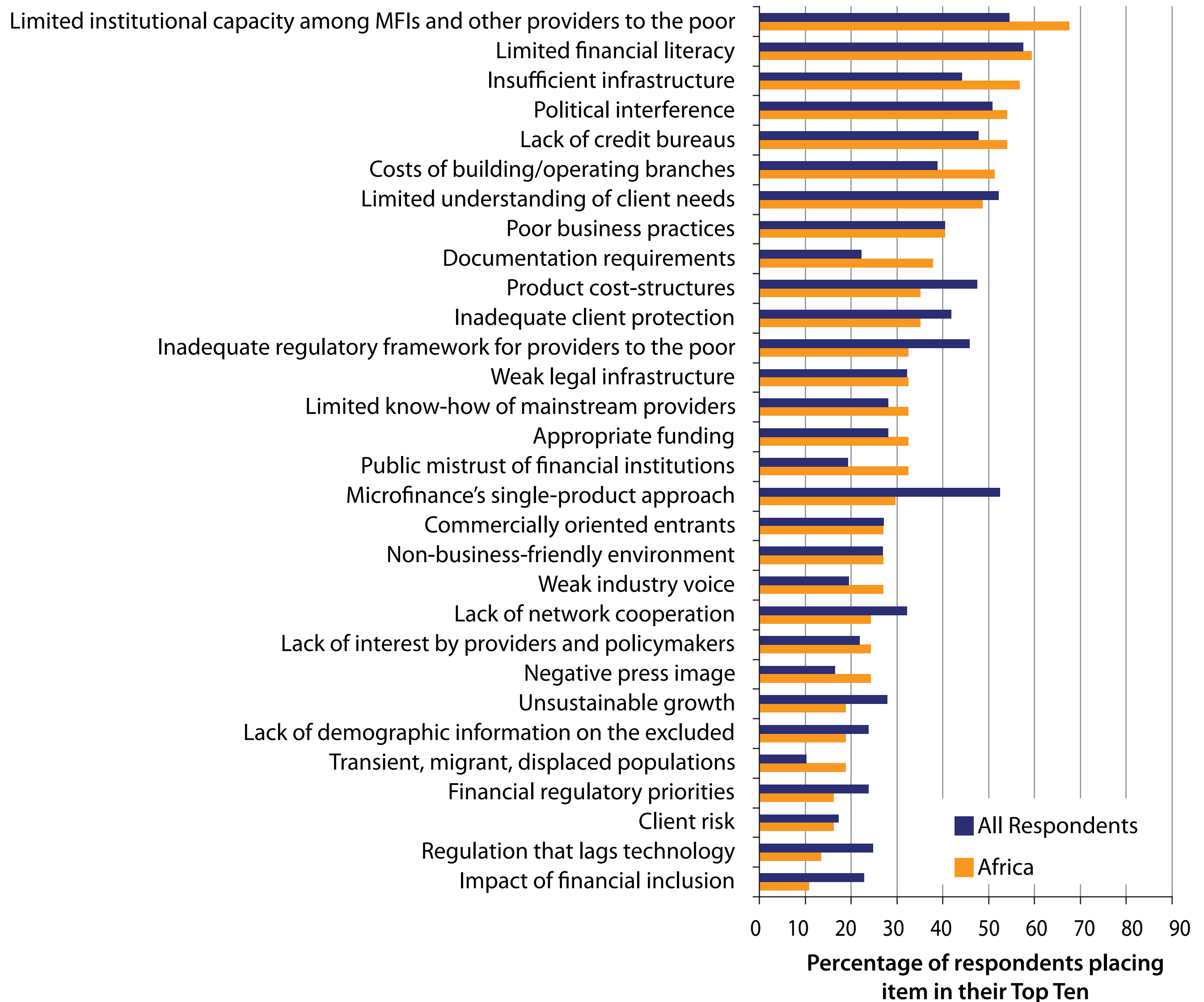
Appendix V. Results by Region

Appendix Figure 5. Survey Results: Opportunities in Africa



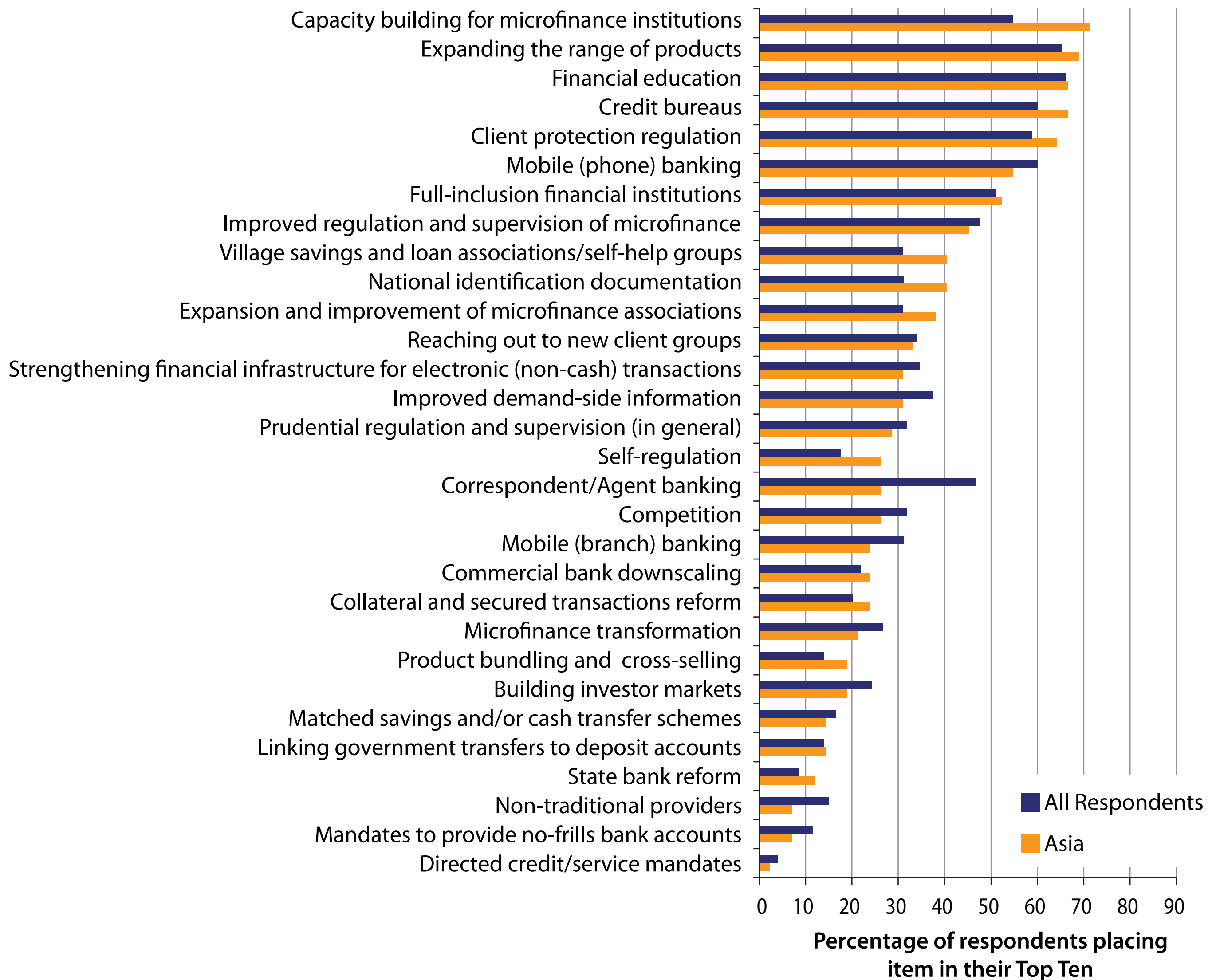
Note: n=37. Opportunities are listed in order of the Africa rankings.

Appendix Figure 6. Survey Results: Obstacles in Africa



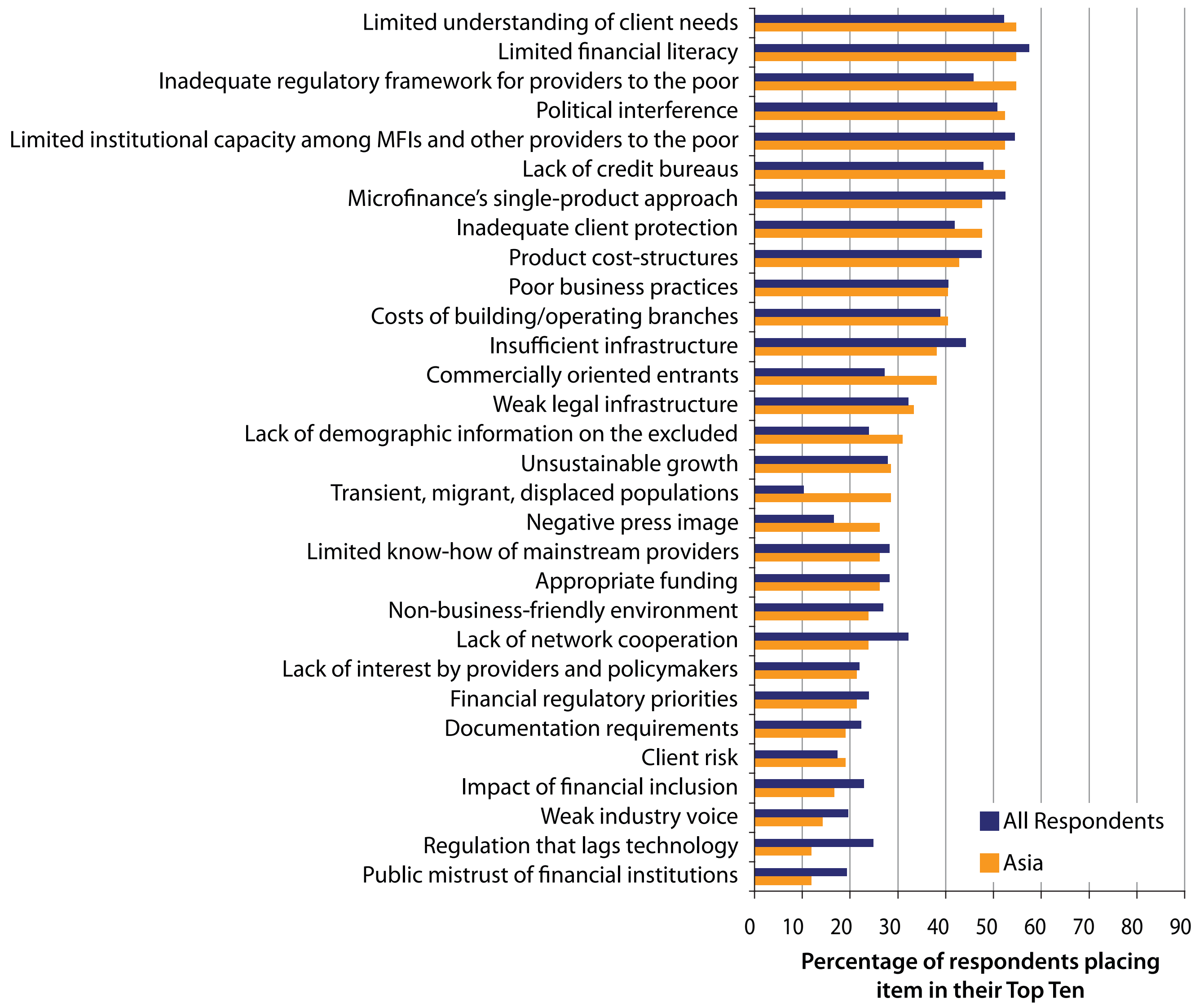
Note: n=37. MFIs = microfinance institutions. Obstacles are listed in order of the Africa rankings.

Appendix Figure 7. Survey Results: Opportunities in Asia



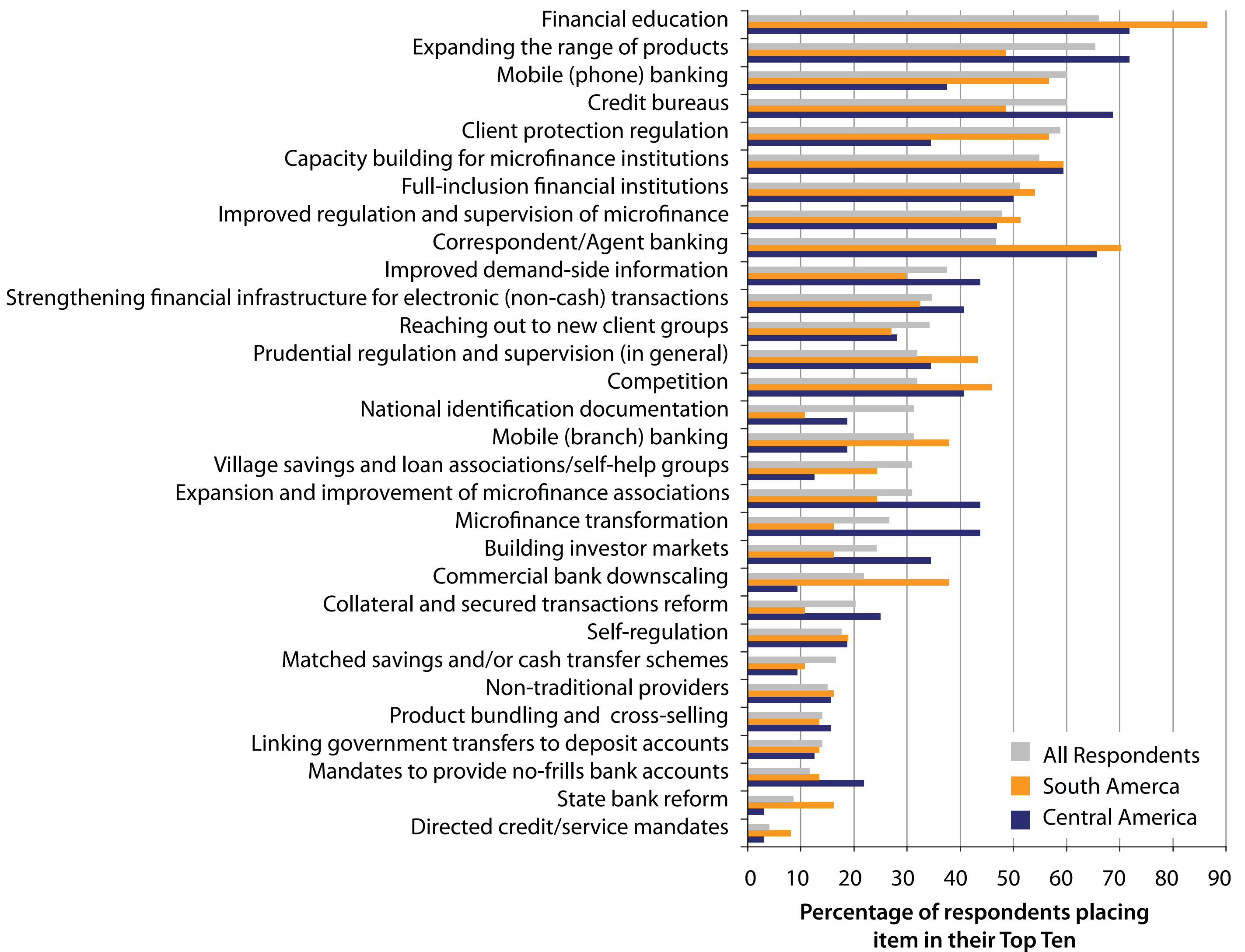
Note: n=42. Opportunities are listed in order of the Asia rankings.

Appendix Figure 8. Survey Results: Obstacles in Asia



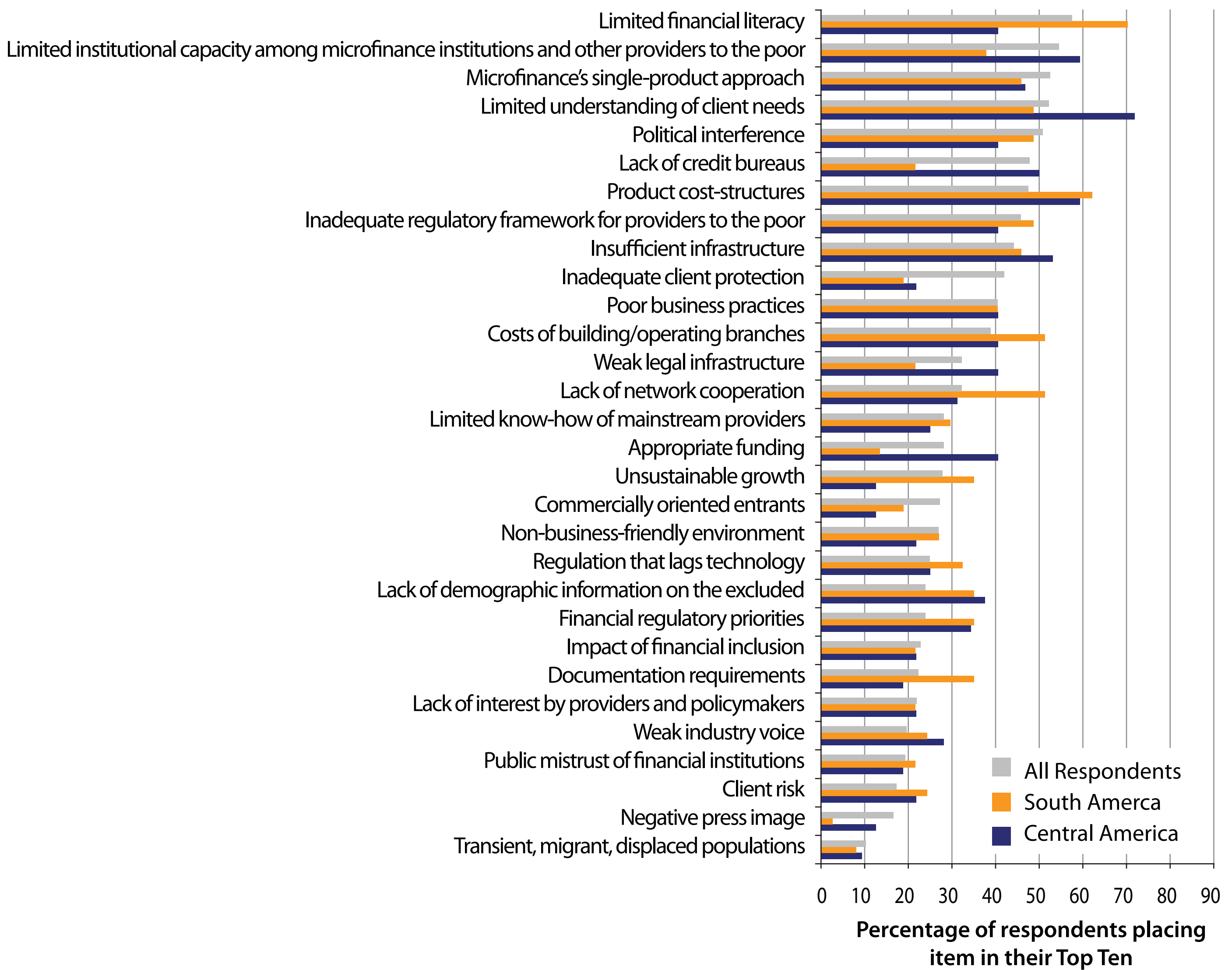
Note: n=42. Obstacles are listed in order of the Asia rankings.

Appendix Figure 9. Survey Results: Opportunities in Latin America



Note: South America n=37; Central America and the Caribbean n= 32. Opportuniteis are listed in order of the general rankings.

Appendix Figure 10. Survey Results: Obstacles in Latin America



Note: South America n=37; Central America and the Caribbean n= 32. Obstacles are listed in order of the general rankings.

Cover Photograph
Photographer Credit: John Rae for ACCION International.
Caption: Jamila Jiendeleze, cupcake business owner and client of ACCION partner Akiba Commercial Bank in Tanzania.

THE CENTER FOR FINANCIAL INCLUSION pursues the proposition that low-income people deserve high-quality financial services and that these services can best be provided through commercial models that incorporate social purpose. The Center works on behalf of the microfinance industry as a whole, serving as a bridge to leverage private sector interest in microfinance. In collaboration with others, the Center works to bring the best minds and expertise to bear on industry problems. We are outcomes-focused, setting specific goals and measures of accountability for real-world change.

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