

Financial Inclusion

Reduces Poverty and Income Inequality

Access to financial services can transform lives and improve economic outcomes.

Poverty Reduction



Reducing Income Inequality



Economic Growth



Reduced Inequality



Improved Well-being

FIN-Biz

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FROM THE EDITOR

The patterns and behaviours that the poor households exhibit around financial management, shed light on the complex financial lives they lead in order to survive on variable low incomes. While research and policy debates have focused on access to credit, poor and marginalised groups require access to a full range of financial services to effectively manage their economic lives. Financial inclusion in Bangladesh must hence be studied as a spectrum of services, in order to encapsulate the different dimensions of the populations they aim to service.

Innovations and policy interventions aim primarily at reducing barriers to access existing financial institutions and bringing banking options geographically closer to people, but far more needs to be done. We must develop enabling systems that help reach the unbanked and under-banked such as tele-density (cell phones and landlines) and broadband networks.

For example, the partnership among banks with agent banking operations and with MFS will not only benefit the customers, but will also benefit the banks and providers. Both banks and providers can extend their offerings to customers at a lower cost. It also gives both of them access to each other's customer base. Thus, collaboration ensures a win-win for all.

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Embracing a New Outcome Agenda for Financial Inclusion

Global Challenges

■ **25%** of Developing Countries Poorer than 2019

■ **40%** of Low-Income Countries Poorer than 2019



Climate Change



Poverty



Inequality



Conflict & Fragility



Economic Uncertainty

Why Financial Inclusion Matters

- ✓ Manage Risks
- ✓ Save Money
- ✓ Invest in Business
- ✓ Save Money
- ✓ Invest in Business
- ✓ Build Resilience

- Harder Recovery
- Increased Vulnerability
- Reduced Income

The World Bank's Global Economic Prospects for 2024 highlight that, by the end of 2024, people in about 25 per cent of developing countries and about 40 per cent of low-income countries will still be poorer than they were in 2019 before the pandemic. This confirms the challenges that lie before us as a global community. Climate change, poverty, inequality (including gender inequality), and fragility, conflict, and violence have emerged as the defining issues of recent times – with questions about how to tackle these challenges yet to be answered. Although the economic hardships associated with the Covid-19 pandemic are receding, these compounding threats from climate change, fragility, violence and uncertain global socioeconomic prospects are making it harder for poor and vulnerable people to recover from the various shocks and stresses they regularly face.

Despite these enormous challenges, there are also opportunities to collaboratively work towards a greener, more inclusive, and more resilient world. Indeed, this global outlook reaffirms the critical role that financial inclusion can play as a key enabler for development outcomes and its role as a foundational element to improve livelihoods and build resilience in an ever more vulnerable and turbulent world. Inclusive and responsible financial services are a critical pathway to achieving important development outcomes.

But, in order to unleash that potential, the financial inclusion community will need to go beyond supporting access to and usage of financial services (i.e., the breadth and depth of financial inclusion) to a strong emphasis on enhancing the practical benefits of financial inclusion (i.e., its utility). While the measures of

and global focus on access and usage have contributed to the financial inclusion community's success over the past decade – with, for instance, global account ownership increasing from 51 per cent in 2011 to 76 per cent in 2021 – they are not sufficient to unleash the full potential of financial services.

To unleash the full potential of financial inclusion, a new approach is needed

The days of financial inclusion operating in its own distinct space are a thing of the past. Business as usual will not get us to the development outcomes we seek – we must be bold and ambitious. This new approach requires that we articulate and demonstrate how financial inclusion contributes to the broader global development agenda, that we bring financial inclusion into new domains where our presence and reputation are not already established, and that we engage with new stakeholders to bring financial inclusion into their agenda as well.

For instance, research on the intersection of climate change and financial inclusion has found that while there is an increasingly urgent agenda for research and action on this nexus, most financial service providers do not yet see climate adaptation as a top priority and many in the broader development community do not understand the linkages well either. Bridging this knowledge gap and demonstrating the importance of financial inclusion in new domains like climate change requires robust research and strong advocacy. Of course, as we push into new frontiers we must also simultaneously recognise and act on the fact that there is still much to do to deepen the financial access agenda, and our work there is not done either.

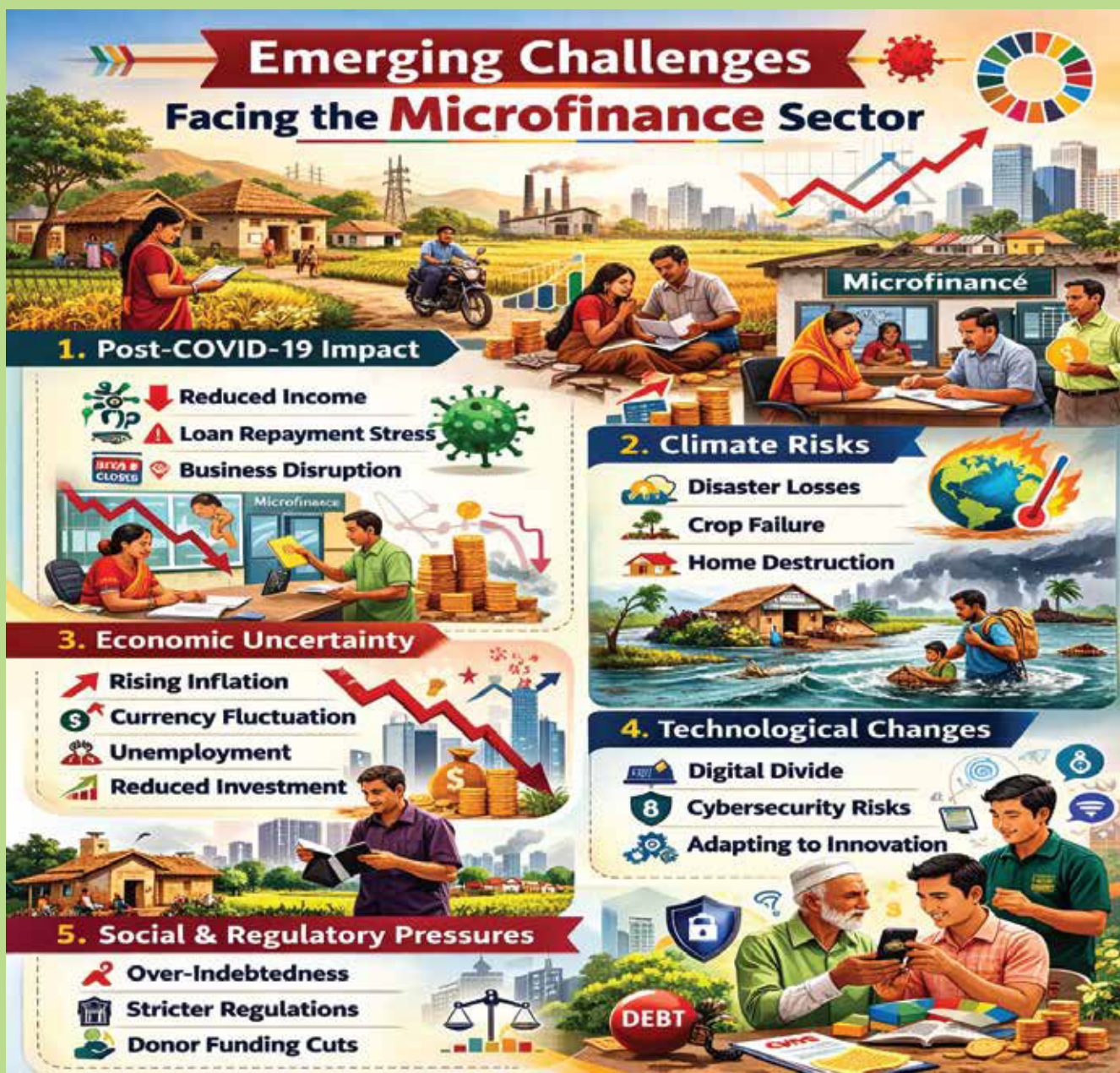
Evidence of financial inclusion's role in driving positive development outcomes is needed

New evidence is crucial to ensuring that the financial inclusion sector's work brings value to these new domains and agendas. A shift to this new approach requires a sector-wide Financial Inclusion initiative. The initiative needs to aim to inspire and guide the inclusive finance sector in improving our understanding and measurement of the impact of financial services by leveraging newly available data and innovative research methodologies to enhance our knowledge of the

contextual factors that drive impact. Such initiatives will elevate the sights of all those who contribute to inclusive finance towards the outcomes their work can influence, including financial services providers that provide inclusive finance services, impact and other investors that invest in inclusive finance, governments, and regulatory authorities that have financial inclusion and financial sector strategies, development finance institutions and multilateral development banks (e.g., the World Bank) that support the sector with funding and advisory services, and sector support and research organisations that guide the sector.

Effective support is needed to help guide this ambitious outcome agenda that should include public and private sector representatives from across the inclusive finance ecosystem. Focusing on outcomes will enhance our strategic focus, our effectiveness, and ultimately our contribution to addressing the world's many challenges. By better understanding the evidence of the impact of financial services and the drivers that influence that impact, we can scale successes and learn from our failures – and create much-needed positive change for the communities that need it most.

Achieving a greener, more inclusive and resilient world cannot be done alone or in silos. To maximise the potential of financial inclusion for those who need it most, we need cross-sectoral collaborations anchored in evidence of how financial inclusion contributes to various aspects of the broader development agenda. However, to do so, all actors within the financial inclusion community – from providers to funders and investors to sector support organisations – must be ready to push the focus on impact forward, one step at a time. The challenge is to ensure the participation of all concerned stakeholders in this journey by thinking about how to better measure and focus on impact within their work.



As we step into the second half of the decade of the 2020s, the trending buzzwords in the fintech domain are artificial intelligence (AI), cryptocurrencies, big data and similar other innovations; and how they are transforming the financial sector with the emergence of digital banking. Despite its relatively modest footprint in the financial world, microfinance has experienced substantial growth in recent years and remains a significant force, especially in developing countries including Bangladesh.

In fact, microfinance has emerged as a potent tool in addressing financial inclusion and poverty alleviation worldwide. Under the ongoing dynamics, one important aspect is to elucidate the functionality of microfinance, its mechanisms, and its impact on individuals and communities.

One classic example that has evolved over time is the case of women belonging to low-income groups who collaborate and create functional groups to generate income for themselves using microfinance as an effective tool in fueling their working capital needs.

These microfinance groups operate on a flexible repayment schedule, allowing members to choose from weekly, biweekly, fortnightly, or monthly intervals. This adaptability caters to the diverse financial needs of the group members. It is a group funding, where the group head is responsible for all the group activities.

With 4 to 10 members per group, a designated leader oversees activities and ensures accountability, even in the event of defaults. Their activation and deactivation capabilities enable efficient management, while regular visits from the funding microfinance Institution (MFI) provide support and help to audit the end use of the funds. Similarly, banks and nonbanking financial institutions (NBFIs) are also developing practices of offering small-ticket loans based on group activity, fostering financial inclusivity.

To ensure effective oversight, a designated day may be adopted each week through mutual agreement, when the MFI would conduct visits, providing valuable insights and support to facilitate smoother operations.

These microfinance groups can form an integral part of the financial landscape, with banks and NBFIs actively engaging in supporting their endeavours. These financial institutions primarily offer small-ticket loans based on the group's activity and repayment status, fostering financial inclusivity.

The challenges faced by the MFIs cover several dimensions.

- ☒ Higher interest rates: The interest rates charged by MFIs are quite high as compared with the banks making it difficult for loan seekers to afford MFI loans.
- ☒ Dependence on banking system: There is substantial dependence on the banking system, presenting challenges that fintech solutions aim to address.
- ☒ Risk of bad debts increases: As these are collateral free loans, there is no security involved and at times the risk of having bad debt increases.
- ☒ Accessibility issues: Rural borrowers may not be aware of MFIs and their benefits, leading to a lack of support. Accessibility remains a challenge. End user reports can be digitised and discussed while onboarding any repeat customers.
- ☒ Lack of information: Information on rural borrowers changing groups while defaulting payments in one group.

The MFIs can cater to the customers by offering solutions driven by technology like AI, Machine Learning and others. These technologies can be engaged to study patterns by industry and also alert with any early warnings to banks to guide customers who are probable delinquencies.

Leveraging technology is paramount in overcoming the challenges that MFIs face. It empowers the sector to extend loans to rural communities with heightened efficiency and effectiveness, showcasing a commitment to innovation in financial inclusion.

Implementing technology

Technologies like Machine Learning and AI can help to have on cloud data that helps in integration of data. This makes it easy for MFIs to access data from anywhere anytime, reducing the manual workload. Thus, smoothening the entire transaction journey for all the groups.

- ☒ Embracing digitalisation is the need of the hour: Streamlining backend operations through automation empowers MFIs to monitor transactions effectively, cutting operational expenses. Online disbursements replace cash, boosting efficiency.
- ☒ Implementing mobile solutions: The MFIs need to focus more on implementing mobile solutions, which will help reduce paperwork and reduce the complexity of the lending process.
- ☒ Utilising data analytics: This allows MFIs to assess risk better, identify trends, and tailor financial products to meet the specific needs of clients. At present, highly configurable, scalable and resilient lending platforms are available that have built-in core powerful capabilities to equip MFIs to effectively meet the demands of their customers and drive agility in operations based on the market demands. The future-ready lending platforms help leading banks and NBFIs better serve their customers and accelerate growth of their microfinance loans portfolio.

Exploring Expanding Frontiers of Sustainable and Inclusive Finance



Over the last few decades, a growing field of innovative financial instruments supported by technological innovations is unlocking funding for green, sustainable, and inclusive development. In the quest to address pressing global challenges and get back on track to meet the Sustainable Development Goals, innovative financial instruments are imperative. Creative options like investing in sustainability, sustainability-linked, and gender bonds can increase access to finance for projects that align with green, social, and sustainability goals in a resource-constrained world.

Sustainability, sustainability-linked, and gender bonds—can help the micro entrepreneurs, especially women entrepreneurs, grow their small enterprises. These form a class of financial instrument designed to encourage the issuer to achieve certain social or green objectives. Issuers apply the proceeds from the bond to fund certain types of businesses or projects—improving sustainability outcomes, such as improving women's access to employment opportunities or reducing greenhouse gas (GHG) emissions.

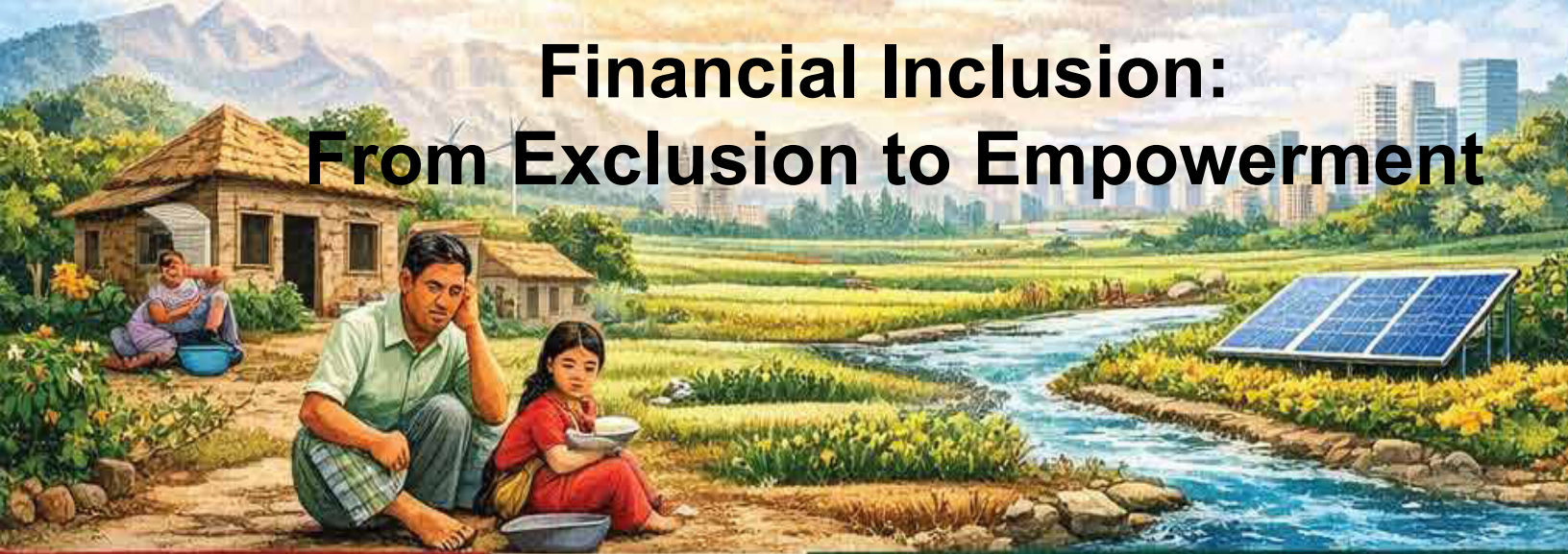
Despite growing investor appetite, a gap remains in the availability of these financial instruments, especially in new markets. The World Bank Group, through the International Development Association (IDA) and its Private Sector Window (PSW), helps to establish sustainability, sustainability-linked, and gender bonds in local currency as credible capital market solutions to finance green, sustainable, and inclusive investments.

IDA is the part of the World Bank Group that helps the world's low-income countries. The PSW is an innovative tool that allows IDA to work closely with the Bank Group's private sector arms—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—to leverage resources and help mobilise sustainable private sector investment in the poorest and most fragile markets. With support from the IDA-PSW, IFC is expanding the use of sustainability, sustainability-linked, and gender bonds into some of the most challenging markets—simultaneously reducing the pressure on the scarce public resources available to finance sustainable infrastructure and climate resilience and promoting environmentally friendly, sustainable, and inclusive investments.

The experiences gained so far offer valuable lessons for the global market. These demonstrate how innovative financial instruments can align financing with sustainability and social goals, illustrating the potential for such instruments to drive significant improvements in environmental, social, and governance practices and support broader economic and social development objectives.

To scale these innovations, donors and development finance institutions can play a critical role in fostering these initiatives. By leveraging successful models and addressing existing challenges, it is possible to unlock the full potential of sustainable finance and advance inclusive and long-term economic development.

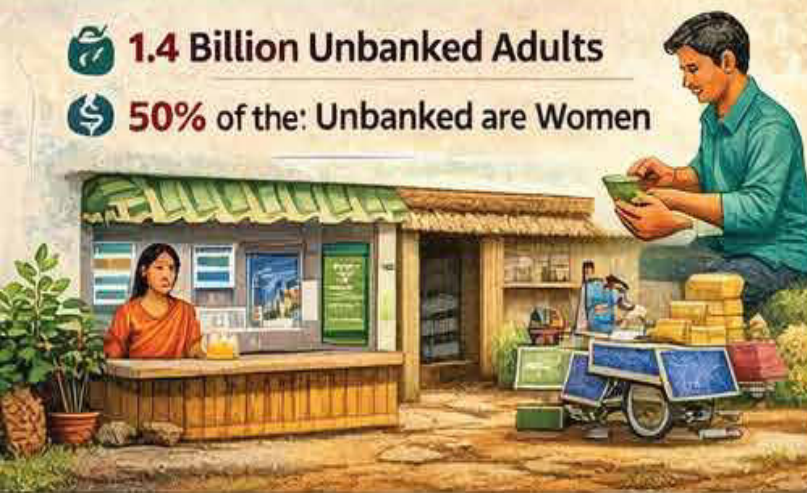
Financial Inclusion: From Exclusion to Empowerment



Current Gaps

 **1.4 Billion Unbanked Adults**

 **50% of the Unbanked are Women**



Benefits of Financial Inclusion

✓ **Economic Empowerment**

✓ **Improved Savings**

✓ **Better Investments**

✓ **Increased Resilience**



The global economy and our world at large are made up of interdependent economies, and when some people are left behind, the economic and social impacts are dire. Financial inclusion provides a pathway to address the systemic barriers that hinder access to financial services and opportunities for billions of people worldwide, driving inclusive and sustainable economic development. It ensures that individuals, communities, and businesses have access to affordable financial products and services regardless of gender and socioeconomic background.

True financial inclusion embraces a holistic approach that encompasses comprehensive range of financial products and services such as microloans, credit facilities, payment services, investment opportunities, insurance products and more. It goes beyond access alone, providing individuals with the necessary tools, resources,

and knowledge to actively engage in a former financial system. This empowerment enables them to make informed decisions and utilise affordable and responsible financial services that cater to their specific needs.

Financial Inclusion Matters

Financial inclusion plays a pivotal role in achieving the UN Sustainable Development Goals (SDGs). It actively contributes to the realisation of Goal 1 – No Poverty, Goal 2 – Zero Hunger, Goal 3 – Good Health and Well-being, Goal 4 – Quality Education, Goal 5 – Gender Equality, Goal 8 – Decent Work and Economic Growth, Goal 10 – Reduced Inequalities, and Goal 17 – Partnerships for Goals. By providing access to financial services, empowering the underserved, and fostering collaboration, financial inclusion emerges as a vital enabler of sustainable development.

Financial services often exclude individuals from

marginalised groups such as people with disabilities, migrant workers, women, those living in poverty and rural areas, and other underserved populations, perpetuating inequality and hindering their economic participation. Marginalised communities face limited access to formal financial institutions, discriminatory lending practices, limited financial literacy and education opportunities that contribute to their exclusion. Financial services often come with high costs, such as account maintenance fees or minimum deposit requirements, which can be prohibitive for individuals with limited resources.

Many migrants and refugees also lack documentation required to open bank accounts and access financial services. This excludes them from participating in a formal financial system and limit their ability to save, access credit, or engage in other financial transactions. Women experience significant exclusion from financial services including limited access to credit, discriminatory interest rates, or cultural biases that restrict their financial decision-making authority. Furthermore, financial institutions often fail to accommodate accessible banking facilities, inclusive digital platforms, and assistive technologies so that people with disabilities can access and utilise financial services effectively.

By extending access to financial services to marginalised groups, we have the power to tackle long-standing disparities while fostering gender equality, social development and economic growth. People with disabilities can gain independence and autonomy through financial inclusion, while migrant workers can establish financial stability and secure their family's futures. For women, financial inclusion is an essential tool in overcoming gender disparities, enabling them to break free from traditional roles and pursue their entrepreneurial aspirations and gain financial independence. Women's financial participation has a multiplier effect on communities as they tend to invest a significant portion of their financial income and resources in education, healthcare, and well-being of their families, leading to better social outcomes.

In poverty-stricken and rural areas, financial inclusion opens doors to economic opportunities, empowering communities to lift themselves out of

poverty. This catalyses empowerment, enabling individuals to mitigate risks, pursue their aspirations, build wealth, and secure their financial future.

The quest for financial inclusion has gained significant momentum as a global imperative seeking to bridge the gender gap in accessing and utilizing financial services. Active innovative financial solutions are now available that are exceedingly critical as financial inclusion goes beyond merely having access to bank accounts.

Digital financial services (DFS) have played a transformative role in recent years, revolutionising the accessibility and utilisation of financial products and services. Innovative platforms, such as mobile banking, digital wallets, and online lending platforms have democratised access to financial products and services. The emergence of multi-product fintech companies exemplifies the power of DFS in driving financial inclusion. With high possibility of serving women as the customer base, these demonstrate the transformative potential of tailored and intuitive financial solutions. These success stories serve as proof of the incredible possibilities that lie ahead as we continue our collective pursuit of inclusive finance.

However, despite the immense potential of financial inclusion, numerous barriers hinder its progress. Women in many countries face challenges in obtaining formal identification, which restricts their access to essential financial services such as bank accounts, property ownership, credit histories, and financial activities like saving, securing loans, and expanding businesses. Limited access to basic resources like mobile phones for financial transactions further exacerbates the issue. Additionally, financial service providers often fail to recognise the profitability of women as a customer segment and make sufficient investments in products, services, and channels that cater specifically to their needs.

Addressing these barriers and achieving universal financial inclusion demands following gender-intentional approaches and collaborative endeavours from governments, businesses, policymakers, and the financial services industry on a global scale so that women can share the same opportunities as men.

Global Microfinance Market: Analysis and Forecast, 2025-2032



Global microfinance market size was valued at USD 209.08 billion in 2024 and the total microfinance market revenue is expected to grow at a CAGR of 12.5 per cent from 2024 to 2032, reaching nearly USD 536.46 billion.

A detailed analyses of the global microfinance market, including market size, growth prospects, and major players reveal interesting developments. In-depth examination of the key trends shaping the microfinance sector, such as technological integration, product diversification, social impact investing, and client-centric approaches portrays robust dynamism. Further, the need for financial inclusion is growing, especially in developing countries where a sizable share of the population lacks access to banking. Around 1.4 billion adults worldwide do not have access to traditional banking services, according to the World Bank, which means that microfinance institutions (MFIs) have a huge market opportunity. The demand is being driven by initiatives that support financial inclusion as more individuals become aware of the advantages of formal financial products.

Advancements in technology, such as the

widespread use of mobile banking and financial technology (fintech), are making unbanked people more accessible, particularly in rural areas. By streamlining loan processing, repayments, and other financial activities, mobile technology lowers expenses and increases reach. Additionally, MFIs' growth is being aided by a favourable regulatory climate that is defined by expedited licensing processes and lowered capital requirements. To meet changing customer needs, MFIs are growing the range of products they offer beyond traditional microloans to include savings accounts, money transfers, insurance, and leasing services. Also, because of the microfinance industry's potential for both financial rewards and social effects, investors are becoming more interested in it, which gives MFIs more funding for service improvement and growth.

There are several ways for investors to interact with the microfinance industry. Common ways include participating in microfinance funds that distribute risk across a variety of portfolios, making direct investments in MFIs through stock or debt instruments, or using impact investing platforms that connect investors with social entrepreneurs.

Achieving a balance between financial return and effect, doing extensive due diligence on the financial health and governance of MFIs, and adopting a long-term view are all important factors to take into account because sustainable microfinance institution development takes time.

Microfinance Market Dynamics

In terms of financial inclusion initiatives, access to savings accounts and loans allows low-income people to invest in education, health, and micro enterprises, thereby breaking the poverty cycle. Financial inclusion promotes entrepreneurship and helps small and medium enterprises (SMEs) develop, which in turn fosters economic growth. Broader financial inclusion also improves overall financial stability by lowering reliance on erratic and dangerous unregulated financial channels. The increasing awareness of financial inclusion initiatives and the lowering of obstacles to formal financial services are driving a strong demand for microfinance services. Demand for insurance, savings products, and small loans has increased significantly as more low-income people and SMEs actively look for them. Governments work with MFIs to lower lending risks to underprivileged people by establishing credit bureaus, funding, and favourable legislation that promotes policy. Advancing the spread of microfinance, technology advancements in mobile banking and fintech allow MFIs to reach rural and remote locations at a reasonable cost.

Rise of mobile banking and financial technology

The rise of mobile banking and financial technology (fintech) presents a transformative opportunity for the microfinance market, particularly in expanding outreach and reducing costs. Mobile technology enables MFIs to reach the unbanked by providing financial services via mobile phones; hence removing the need for physical branches. This improves accessibility, especially for isolated locations or communities without established financial infrastructure. In addition, when compared with conventional branch-based models, mobile solutions significantly cut MFIs' operating expenses, which in turn results in reduced borrower interest rates and higher profitability. Also, mobile platforms provide faster loan processing, repayments, and transactions, improving both operational efficiency and client experience. MFIs are expected to

improve risk assessment, offer individualised products, and promote financial inclusion by gaining important insights into client behaviour and creditworthiness through mobile data analytics.

Risk management

The MFIs face numerous risks, including credit, operational, liquidity, and external hazards. Credit risk is increased when serving clients with short credit histories and no traditional collateral, which exacerbates the effects of defaults on the MFI's portfolio and financial stability. Operational risk exposes MFIs to financial losses and reputational damage due to operational issues in remote areas, such as infrastructure limits and potential fraud threats. MFIs that rely on outside finance are vulnerable to funding changes, which are expected to impact loan disbursements and operational costs. It is known as liquidity risk. Additional dangers to operations and market stability include external issues including political unpredictability, economic downturns, and natural disasters. MFIs face challenges in attracting necessary funds for growth because of increased risks, which result in a loss in investor confidence. Due to their higher risk profiles, MFIs frequently have to charge their clients higher interest rates, which makes it harder for the needy borrowers they are trying to help to receive credit. Inadequate risk management can lead to operational inefficiencies, which impede the ability to scale effectively and affect profitability in general. When the microfinance industry faces high rates of delinquency and systemic concerns, it leads to wider market instability and an economic downturn, which poses difficulties for MFIs and the communities they serve.

Microfinance Market Segment Analysis

By type: The microfinance market consists of various providers, including established banks extending their reach through structured loan products and partnerships with MFIs, specialised MFIs prioritising social impact via group lending, adaptable non-banking financial institutions (NBFIs) offering flexible services, technology-driven fintechs enhancing accessibility with digital solutions, and various other entities like cooperatives and credit unions serving specific community needs.

By loan type: Microfinance loans are categorised based on their purpose. Microfinance caters to varied financial needs through income-generating

loans bolstering entrepreneurship, consumption loans addressing immediate household expenses, emergency loans providing crucial support during crises, agricultural loans empowering farmers, and a range of other specialised products like housing or vocational training loans. Emergency loans provide quick financial relief for unforeseen crises, ensuring borrowers have access to urgent funds. Agricultural loans support farmers by financing seeds, equipment, and livestock, enhancing productivity and rural development. Other loan types include specialised financial products tailored to unique borrower needs.

By end user: Microfinance primarily serves diverse borrower groups. Individual borrowers, often from low-income backgrounds, seek small loans for personal or business needs, including individual borrowers seeking small loans for personal needs, micro, small, and medium enterprises (MSMEs) requiring capital for growth, women entrepreneurs driving economic development, and farmers and rural communities fostering agricultural productivity and economic diversification.

Microfinance Market: Regional Analysis for North America

The North America in the microfinance market, demand is increasing, particularly when compared with industrialised economies. Microfinance, despite its modest scope, is essential to the uplift of certain communities in the area. It is remarkable for its focus on entrepreneurship and inclusivity, to bridge wealth disparities and raise upward mobility through assistance for small enterprises and the advancement of financial inclusion. The microfinance environment in North America has changed recently. As key stakeholders, Community Development Financial Institutions (CDFIs) provide loans and financial services to marginalised populations. Peer-to-peer micro lending has also been made easier by the emergence of Internet lending services like Kiva, which link borrowers and lenders both locally and globally.

The United States dominates North American microfinance, with a larger sector than Canada. Numerous reasons contribute to its strength, such as the country's bigger population and the variety of localities facing varied degrees of financial need. Through programmes like the CDFI Fund, which has invested over \$5 billion into CDFIs since

1994, the US has shown a significant commitment to microfinance. CDFIs support a variety of projects, from small businesses to affordable housing and community development. Also, the Association for Enterprise Opportunity (AEO) reports that microloans in the US, which have an average value of \$13,100, have greatly boosted entrepreneurship, with 88 per cent of clients using the money to launch or grow their enterprises. Additionally, government support through Small Business Administration (SBA) programmes further supports microfinance efforts, underscoring the United States' leading role in fostering financial inclusion and economic empowerment within the region.

Microfinance Market Competitive Landscape

The microfinance industry has seen a notable upsurge in creative methods in recent years. A significant focus on mobile-based financial services was evident in 2023 with the release of new apps and digital platforms designed specifically with microfinance clients in view. In 2022, MFIs and tech companies began to collaborate more frequently on fintech projects to increase operational effectiveness and reach unbanked customers. In 2021, new customised microloan products were launched to cater to certain demands including financing for schooling or climate-resilient agriculture. It indicates that the microfinance industry is always striving to be more flexible and customised. Increased rivalry among MFIs encourages efficiency, creativity, and cost savings for financial goods. Because of the increased competition and creative approaches used to target underprivileged people, this competitive landscape encourages more financial inclusion and outreach. Also, the growth of a varied range of market participants leads to a variety of microfinance products designed to fulfill particular requirements and financial goals. Market saturation, on the other hand, carries a possible risk of driving unsustainable practices and riskier lending because of fierce competition. As such regulators need to keep a close eye on the market to reduce risks and guarantee the integrity and sustainability of microfinance operations.



Bangladesh Bank



Commercial Banks



**Microfinance
Institutions**



**Microfinance
Institutions**



Green Finance in Bangladesh

Bangladesh, as a low-lying country located in the Ganges–Brahmaputra–Meghna Delta, is highly susceptible to climate change disasters, such as floods, drought, cyclones, salinity intrusion, sea-level rises, and other climate change related impacts. More than three-quarters of the country's land area are less than 10 meters above the sea level which, along with more than 700 rivers running throughout the country, make Bangladesh highly vulnerable to climate change related disasters and risks.

Moreover, in view of the large size of the population (more than 175 million in 2025) and very high population density (around 1,300 per square kilometer), the adverse consequences of climate change related disasters are enormous and are likely to steeply rise in future. Thus, several specific features including the country's geographical location, high climate change vulnerability, dense and rising population, and riverine landscape make a strong case for green finance in Bangladesh to support the country's transition to higher growth trajectory and promote inclusive and sustainable development.

In this context, an important development challenge for the country is to mainstream green finance in climate-resilient and adaptation programmes/projects including the renewable energy (RE) sector.

As such, in practice, green finance in Bangladesh involves financial mechanisms and innovative initiatives that promote climate-resilient and environment-friendly inclusive and sustainable programmes/projects, industries, infrastructures and other socioeconomic transformations. At present, it includes, for example, tools like the Green

Transformation Fund (GTF) and green refinancing schemes, encouraging banks and financial institutions to support projects/programmes in areas like renewable energy, energy efficiency, and waste management and other climate change adaptation measures.

Status of Green Finance

Bangladesh Bank (the central bank) has undertaken several initiatives to promote green finance in Bangladesh. The Bank has launched a USD 200 million refinancing scheme known as the Green Transformation Fund (GTF) to support environmentally friendly initiatives in manufacturing industries covering all sectors. It also encourages green financing through concessional refinancing schemes, credit quotas for financial institutions, and guidelines for green banking, including the Green Bank Refinance Scheme. Banks and nonbank financial institutions (NBFIs) in Bangladesh are assessed by Bangladesh Bank on their sustainability practices, including green refinance, through a sustainability rating methodology.

The green banking policy of the Bank encourages banks to establish branches with renewable energy sources, such as solar power. Bangladesh Bank is also actively involved in promoting the development of a domestic green bond market, which could attract international and institutional investors. Furthermore, financing for the circular economy in Bangladesh is carried out under the broader category of sustainable finance. Bangladesh Bank supports sector-specific projects, such as the Technology Development Fund (TDF), to promote green technologies. Moreover, a significant portion of green finance is directed towards renewable energy and energy efficiency initiatives. Green finance also supports

projects in solid and liquid waste management.

The expectation has been that such financing would help reduce climate change footprint by encouraging industries to adopt sustainable practices and reduce their environmental footprint. Further, such green projects can stimulate economic growth by creating new jobs and opportunities in the green sector. Green finance can also play a vital role in mitigating the impacts of climate change by promoting renewable energy and energy efficiency. Moreover, exporters in Bangladesh are incentivised to adopt green practices to attract international buyers (e.g. in RMGs) who prioritise sustainability.

However, despite having great potential of green finance in promoting climate resilient and environmentally sustainable economic growth and development, the progress so far has been slow and remains yet to be mainstreamed. For example, renewable energy sector still consists of a meager (around 1 per cent) share of the total energy portfolio.

The poor performance of the renewable energy and other sectors can be attributed to several factors, such as lack of adaptable and required technology, absence of well-performing regulatory and institutional framework, and absence of proper policies and incentives. Although the Bangladesh Bank has formulated green banking guidelines, the lack of capacities of banks and financial institutions, inadequate understanding of risks and returns of green projects, and the underdeveloped equity and bond markets hamper the expected growth of green projects in Bangladesh. For instance, the Solar Home System (SHS) Programme of the Infrastructure Development Company Limited (IDCOL) had installed nearly 5 million SHS across the country and had been a good example of public-private partnership in green financing. But the Programme has run into huge loan default problem with the customers. Several reasons have been identified for the problem, such as uncoordinated grid electricity expansion, lack of coordination among respective agencies, failure of the Programme's successful commercialisation efforts, poor financial governance, and absence of a national level policy oversight body. The above indicates that

successful efforts to green financing requires the creation of a facilitating environment covering a host of policy, institutional and related factors, such as capacity building of banks and financial institutions, development of bond and equity markets, creation of a well-coordinated policy oversight body, and mainstreaming of green finance into the relevant policy agenda.

It is now well-recognised that the transition to a green economy is closely linked to the development of sustainable green finance. In order to maintain sustainable growth and development, it is necessary to develop the principles of sustainable and green financing and mobilise necessary financing.

As such, the green finance market may also be termed as sustainable finance market. It is clear that green finance focuses on environmental issues, such as decarbonisation, and biodiversity loss. Essentially green finance includes activities that are grouped within socio- environmental financing, which directs financing towards social and environmental issues. It also includes an array of financing vehicles that channel capital into green-label projects as well as climate change mitigation or adaptation efforts. Furthermore, green finance gives services in increasing the long-term investment and usually provides higher returns to investors. In recent decades, green finance has been widely used in utility, logistic and transport, food and beverage, chemicals industries and many other sectors across many countries. The innovations in sustainable financial products, such as green bonds, sustainability-linked loans, and impact investment vehicles have played a key role in the rapid expansion of green finance. Furthermore, banks and financial institutions have developed novel instruments to attract new investors and expand the green finance market.

According to available projections, the global green finance market size is expected to reach USD 28.71 trillion by 2033, showing a compound annual growth rate of 21.25 per cent during the period 2023 to 2033. Bangladesh needs to work consistently to expand and deepen green financing and access the fast rising green finance market to ensure climate resilient and inclusive development of the country.

How financial inclusion drives opportunity and jobs

Aziz, a small retail business owner in a remote village in Gazipur had a dream: If only he had more money, he would have expanded his business and hire a worker to earn more. But he could not as he did not have a credit history. He did not have collateral either. He was paid primarily in cash, so he did not have any formal records. Aziz was invisible to the financial system.

Dilruba, another women entrepreneur in the Savar region, also a small business owner, faced a similar fate. When a supermarket chain offered her a contract to supply eco-friendly packaging, she could have doubled her monthly revenue. She had to turn down the offer. Because she could not get access to a short-term loan to purchase the raw materials she needed upfront. Dilruba did not lack ambition, product, or demand; she only lacked credit.

These are true stories, far too common for both men and women small entrepreneurs, not just in these two locations but across the entire Bangladesh. If we multiply these stories by millions, then the enormity of untapped potential becomes blatantly evident. So, how do we change this and make these small and bigger dreams come true?

The answer is not as complicated as it seems but there are two parts to it. First, accelerating financial inclusion to empower individuals. And second, providing businesses with access to credit and capital. We know how to do this; but it is time to scale up our efforts dramatically. How do we do this?

First, innovation at scale. The landscape for financial inclusion has evolved in recent years for the better. Financial innovations, such as alternative credit scoring models, digital lending platforms, and data-driven risk assessment tools, are transforming access to finance. By leveraging transaction data, mobile payments, and non-traditional credit histories, these innovations are breaking down barriers to credit for underserved entrepreneurs, particularly women-led enterprises. Artificial Intelligence (AI) can be leveraged to unlock access to credit. Thus, lesson number one is: innovation knows no borders.

Over the years, Bangladesh has made progress in improving access to capital, but much more could be done. Still, only a very small percentage of small enterprises use credit. And the full potential of digital payments remains untapped across many areas, particularly among women, youth, and the rural populations. That makes it the perfect lab for innovation at scale. Increased use of digital payments would create new job opportunities in emerging sectors such as the gig economy, especially attracting young people. It could also stimulate job growth in traditional sectors through improved market access via e-commerce and digital marketplaces, for example.

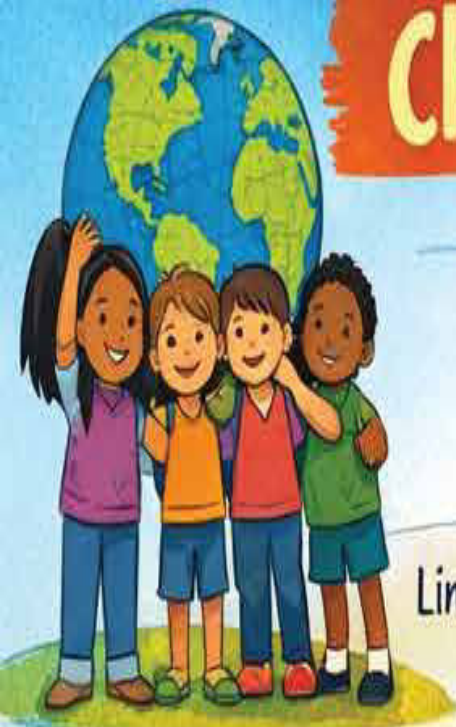
Second, a business-friendly environment. Scaling digital payments requires policymakers who champion the private sector while protecting consumers, along with telecom liberalisation, resilient digital infrastructure, and strong cybersecurity measures. Partial credit guarantees where the government shares the risk with lenders in case of defaults are also an effective way to unlock riskier lending and empower small businesses. And in a country like India, digital IDs have proved crucial in expanding financial inclusion. **So, lesson number two is: borrow successful strategies from others and adapt them to local contexts.**

Third, ambition and action. And this is where support programmes aiming to expand access to capital and digital payments for individuals and MSMEs are necessary. The ambition has to be to leverage funding to generate new and better jobs (including for women) across the country. Banks and financial institutions will have to be ready to deploy the full power of private and public sector solutions to help small entrepreneurs expand their businesses.

This can be done by expanding digital payments, de-risking credit markets, building ecosystems for equity financing, and creating product markets across the entire country. **Thus lesson number three is: creating a national market can help achieve scale and impact.**

For Bangladesh, it is the time now to make the invisible visible. And this is the pathway to create millions of jobs and opportunities along the way.

Increasing Financial Inclusion for Children and Youth



Children & Youth make up over
1/3 of the world's population.

Limited access to financial services
leaves them vulnerable.



Children and youth represent more than one-third of the world's population, and in some countries, especially emerging markets, they can constitute almost half of the population. With limited access to formal-sector financial services, children can be particularly vulnerable to economic shocks and to resorting to informal money lenders or potentially abusive and exploitive situations to bridge the financial crisis. What little products that do exist for children are not always designed to address their unique needs and challenges.

Child and Youth Finance International (CYFI) aims to change this by advocating a new approach that encourages financial institutions to consider children's rights when developing financial products and services targeted towards youth. In collaboration with UNICEF and with support from MasterCard employee volunteers, CYFI has prepared a discussion paper, 'Beyond the Promotional Piggybank: Towards Children as Stakeholders', that outlines a framework and a five-step process to help mainstream financial institutions develop inclusive, safe and responsible products for children and youth.

Experimentation with the framework indicates positive impacts, says Jennifer, one of the MasterCard employee volunteers: "I believe that my experience with Bankers without Borders (BwB) strengthened my professional skills. My organisation (MasterCard Europe Core Products) will produce more interesting and responsible products for youth as a result of the work that Anna and I have done with CYFI". Anna agrees. "I really believe that this discussion guide will give us the platform and opportunity to surface these issues in the youth departments of high street banks for the first time. It is clear that just through heightened awareness and communication of the importance of child friendly financial services products, we can start making a difference in our industry – I feel privileged to have been a part of that!" CYFI Partnership and Certification Manager, Bram Stoeffle, says: "Jennifer and Anna were highly professional and thoroughly committed, over and beyond what we expected. We're excited to collaborate in the future on the next step- a youth financial services product development guide, and CYFI is thankful to BwB for facilitating this relationship".

Savings Led Groups:

An Early Success Story

Access to financial services is limited in poor rural communities.

SLGs are community-managed microfinance groups that provide **savings & loans** to underserved communities

SLGs Provide Real Benefits for Members

- Access to Savings & Loans with three locks.



- Emergency Funds
Limited access to savings promotes discipline & responsibility.



- Insurance Services



- Flexible Savings for goals



Key Features of Savings Led Groups

1 Proximity

Community-based, reaching villages not served by banks.

2 Illiquidity & Constraints

Limited access to savings promotes discipline & responsibility.

3 Reminders & Rewards

Regular meetings with public contributions encourage saving.

4 Security

Funds stored securely in lockboxes with multiple keys.

Connecting Tracks into Rails: SLGs' Role in Financial

1 On-ramp into Banking

Members matched with other financial products as their literacy grows.

2 Sustainable SLGs

Developing models that can operate independently and expand.

3 Village Agent as Aggregator

Village agents connecting SLGs with mobile money & other services



SLGs provide trusted, flexible financial services for underserved communities.

Access to financial services such as saving accounts is very limited throughout the world, particularly in poor rural communities. This is partially due to the challenges banks face in collecting low-value cash deposits using their traditional costly infrastructure. But the problem does not lie solely with the economics of small balances. Proximity is also an issue, both for the financial institution and the client. Additionally, the demand must be met for appropriately designed and affordably priced savings products that are offered through a channel that the community trusts.

Community-managed microfinance, often referred to as savings led groups (SLGs), is an alternative channel through which savings products are offered to communities that often have no other access to financial services, neither through a bank nor a microfinance institution (MFI).

SLGs offer a commitment savings product that has many of the product features that are attractive to small-balance holders, including illiquidity, reminders, constraints, and rewards. Some SLG members earn up to a 100 per cent return on their savings and are able to save when and in whatever amount they wish.

Group members have access to microloans that are often too small for MFIs to offer and limited unconditional transfers for emergencies. Members are also able to receive insurance services, which mitigate the effects of unforeseen disasters,

and can set up funds for school

fees, festivals, and other cyclical annual events. While it is debatable whether SLGs are preferable to more formal savings mechanisms, there is evidence that this channel offers demand-driven savings products based on features and through secure channels that lower income communities favour.

Key Features of Savings Led Groups

Proximity: Savings led groups are community based, and many organisations use a saturation model that facilitates groups being replicated in surrounding areas. Group members can also start groups in areas not currently being served to ensure that there is access to an SLG within convenient proximity to interested community members.

Illiquidity and constraints: SLG members

typically have access to their savings at the end of a one-year cycle. Members value the discipline that is forged by having limited access to their funds and being required to make regular deposits. The social fund is available for emergencies or unpredicted needs, while microloans are available for investments, predicted expenses, and consumption smoothing.

Reminders and rewards: Each group member is required to publicly contribute a minimum periodic amount that is verified by the group. Members are reminded of their obligation to contribute at each meeting and are fined if they are not in compliance. By making their contribution, SLG members have access to loans sized in proportion to their savings and access to grants should emergencies arise.

Security: Group members are jointly responsible for the safety of their pooled funds. Most SLG cash boxes have three locks, and the keys are distributed to three different rotating group members. Some

groups divide the funds among trusted group members. The responsibility of keeping the box extends beyond the group into the community. Since income generating members of the community are often in SLGs, the community depends on the funds intermediated through groups and will help protect them.

Return: Some SLG members may earn a return of 100 per cent. The Africa-based SLGs supported by grants, earn an annualised return of 40 per cent. In most urban and especially in rural areas where many SLGs function, this is the highest-earning financial instrument available to its members or their communities.

SLGs Provide Real Benefits for Clients

According to the Fletcher School at Tufts University, SLGs reach a reported 100 million households worldwide, specifically in Africa, Asia, and Latin America. A baseline study produced by Innovations for Poverty Action (IPA) and Bureau of Applied Research in Anthropology (BARA) at the University of Arizona for Oxfam America shows that Oxfam SLG group members in rural Mali have earned an annual return on their savings of 30 per cent to 40 per cent. Additionally, members highly value the groups over other available financial services because of their inherent flexibility and transparency.

In a household study conducted in Zanzibar, members of Village Savings and Loan Associations (VSLAs), or SLGs, ranked improved standards of living (22 per cent), improved housing (21 per cent), and increased incomes (20 per cent) as the major changes resulting from the VSLAs. Most of the changes seem to be related to business growth or household improvements.

In Oxfam SLGs and other organisations using similar methods, oral record-keeping allows illiterate and innumerate members of the community access to savings mechanisms, loans, grants for emergencies, and other services provided to the group.

Connecting Tracks Into Rails: SLGs' Role in Financial Inclusion

SLGs are a trusted delivery mechanism in convenient proximity to underserved communities that offer a savings product with many features demanded by small-deposit holders. Even when other services are available, SLG membership can be one option in a suite of available services. Formal savings products can complement the limitations of SLG members' co-variant risks, lack of privacy, and constraints on savings and loan limits.

But how can this growing platform of more than 1 million groups be brought into the fold of financial inclusion? Decreasing the dependencies on ongoing external investment and the often heavy setup cost per SLG member can be a key driver. Similarly, exploring models through which forming, replicating, and supporting groups can be sustained at the community level can be a useful vehicle.

Further, grants can be used for a dual purpose of testing different models of sustainability for the formation and continued replication of SLGs and reducing the up-front costs of forming and supporting SLGs. It can be hypothesised that if the need for ongoing external support is removed, the total cost could be reduced to a level that can be supported by the group members. Efforts of experimenting with self-sustaining models of SLGs need to tackle such questions as: What is the community demand for financial services offered by SLGs? How much are members willing to pay for these services? What is the commercial viability of SLG trainers charging a fee that

provides them a livable wage over an extended period of time? Developing a model for a self-sustaining system to continue to expand this platform can be quite rewarding.

A self-sustained SLG model could contribute to financial inclusion in several different ways, including:

☒ **On-ramp into banking:** Whether individually or collectively, SLG members can be matched with or are more likely to seek out other financial products, either through group-linked credit products, increased individual financial literacy, or incorporating mobile money activities into SLG or personal financial transactions.

☒ **Village agent as aggregator:** The agent or individual who forms and supports an SLG is one step closer to the saver than either a bank branch or retailer and is, therefore, a natural aggregation point as they connect many groups and multiple pots of funds. Mobile network operators may explore ways in which village agents can be mobile money agents, serving SLGs in remote areas or acting as aggregators when individual amounts are too small for SLG members to affordably intermediate individually on a mobile platform. The extent to which household SLG members can be connected into the financial sector, whether through retail outlets that offer financial services or directly to financial institutions, will largely determine savings led groups' ongoing role in financial inclusion.

Finding a sustainable SLG model is the first step in exploring how this platform can be leveraged to bring more households into the formal financial sector. For going forward, the need is to learn more about how to unlock this potential by exploring creative partnerships between SLGs and other financial service providers, explore the possibility of the village agent as a channel to provide financial services, and seek out best practices in linkages to financial institutions.

Value-Based Banking:

Key to Closing the Financial Inclusion Gap

Financial inclusion empowers underserved individuals, micro, cottage & small enterprises to access **savings, credit, payments**, and insurance, enabling them to invest in education, health, and build a better future.



Global Impact of Financial Inclusion

1/4 of the world's population lacks access to a banking or mobile account.



Supports Sustainable Development Goals



Financial inclusion drives economic progress and poverty alleviation in today's interconnected and rapidly evolving world. It ensures that individuals and entrepreneurs, regardless of their social or economic standing, can access essential financial services such as savings, credit, payments and insurance. This often means vulnerable people can manage risks, invest in education and healthcare, and secure their socioeconomic future and move forward to better living and future prosperity.

Financial inclusion contributes to achieving the Sustainable Development Goals (SDGs), including those addressing poverty, hunger, health and gender equality. Access to finance empowers underserved people to actively participate in the economy and helps individuals and cottage, micro, and small enterprises (CMSEs) to transit from informal economies to become more financially secure, promoting long-term growth.

It is estimated that nearly one-quarter of the world's population does not have access to a bank or mobile phone account. This means they are trapped in cash-based systems, unfair financing or predatory lending, unable to

effectively save, invest or increase their wealth. Closing this gap is not just about enhancing personal financial stability; it is about fostering equitable and sustainable economic development at the global level.

Global dimensions of financial inclusion

In the Global North, financial inclusion often revolves around integrating marginalised communities into the formal financial system, addressing the exclusion faced by minorities and low-income individuals. In the Global South, however, it takes a more transformative role, particularly for those at the base of the economic pyramid and for the CMSEs. Initiatives like microloans for individuals and small businesses do not just improve people's quality of life, they also stimulate local economies, foster job creation and promote inclusive economic growth.

Migration provides a useful example. Like two sides of the same coin, migration trends have driven the need for financial innovation to meet the diverse needs of migrants and their families. Immigrants in the Global North require access to credit cards, loans and mortgages. At the same time, their families in the Global South look for

efficient ways to manage remittances. These dual needs underscore the importance of developing tailored financial solutions that help people build prosperity.

Reaching out where the needs are

The need is to promote value-based banks' proactive approach to reaching their clients, particularly in microfinance institutions (MFIs), with the aim to break generational cycles of poverty. Banks need to take a hands-on approach. They can directly engage with underserved communities in the field to better understand their needs. The banks can maintain an extensive network of agents who would travel to remote rural areas, offering personalised financial solutions that help improve the quality of life for people with unique needs. This on-the-ground outreach can be complemented by the use of social networks and digital media.

Bank's employees can travel from village to village helping enterprising people start a business. The banks can focus on microfinance and provide micro, rural, agro and CMSE loans and other financial services. By lending to small-scale businesses and individuals, banks can reduce unemployment and enable people to progress both as individuals and as entire communities.

Banks can also partner with MFIs and other organisations that are close to the real needs of local communities and can make the connection between the banks and the beneficiary. In other cases, the banks can finance charities and social businesses that provide these services directly. Such collaborations will help banks better understand and address the specific needs of the excluded populations.

Long-term relationships of trust

At the ground level, there are three key ingredients to successful financial inclusion:

First, build long-term relationships and trust between financial institutions and their clients. By understanding customers' needs, banks can tailor products and services that facilitate their financial wellness.

Second, provide financial education and entrepreneurial counseling. Particularly for banks working with microfinance and small loans,

working with and counseling clients has profound, long-term benefits.

Third, guarantee accessibility to banking services, including digital services and making sure the presence in remote areas.

This approach focuses first on the client and their needs, and only then on offering products or services. When trust and strong relationships are established, a customer who initially takes out a small loan may later feel confident to ask for more products and services, deepening their engagement with the institution.

Banks can promote financial inclusion by offering a range of accessible services, including payment cards, loans, deposits and digital products including mobile apps. The banks will have to cater to diverse customer needs, providing both traditional and digital banking services for all age groups. The apps can allow users to access various banking services remotely. To simplify payments, the banks can implement QR code payments across retail outlets, enabling customers to make purchases or transfers with ease.

Bridging financial gaps

Value-based banks often emerge to fill existing financial gaps in underserved communities, providing financial inclusion where traditional institutions have fallen short. These banks can support, for example, local businesses, women, youth, and seniors with low-interest loans and business development services, contributing to sustainable community growth. Some value-based banks may also partner with MFIs in order to extend financial services to individuals and small businesses previously excluded from the formal banking sector, providing a pathway out of poverty.

Empowerment through entrepreneurship and education

Financial education and counseling are essential components of financial inclusion. These services provide crucial support for micro-entrepreneurs and offer educational courses and events tailored to low-income savers. By empowering individuals with knowledge and resources, banks and other financial institutions can help them make

informed decisions and build a more secure financial future. These banks can make new waves through focus on financial education, particularly for women and rural communities. A key element of the strategy would be to offer financial literacy programmes that empower clients to manage their resources more effectively, start small businesses and improve their overall economic well-being.

The programmes could be designed to help clients better understand how to use credit, manage savings and make informed financial decisions. These efforts could be aligned with broader development goals, such as reducing poverty and promoting gender equality, by giving marginalised populations the tools to lift themselves out of economic hardship. These could be guided by the vision of 'integral development'; and the banks can offer tailored financial products for women, youth, migrants, and environmental initiatives, promoting financial inclusion and sustainability.

Through strategic partnerships with social integration networks, producer associations, and local financial entities, the banks can facilitate loans that empower rural producers and artisans, helping their communities thrive. Additionally, the banks can offer a website dedicated to financial education with videos, resources, and practical tips for managing personal and business finances, including advice on financial security and debt management. For example, specific programmes may be designed to empower individuals, families and communities with practical financial advice they can readily apply.

Innovative ways to access banking

Value-based banks always look for ways to connect with the communities they serve so that financial services are accessible to all. This can mean expanding services to remote, underserved or low-income areas with new branches; or using vans where customers can conduct basic transactions and get training and information; or expanding the agent banking network and sub-branches.

Technology plays a key role in financial inclusion, especially in remote areas, by making banking services more accessible. However, for older or less educated individuals, digital tools can be

challenging to use. To address this, banks can offer a mix of traditional and digital banking, along with financial literacy programmes. Value-based banks usually combine these approaches, ensuring that all customers can access and benefit from financial services. The banks should ensure that the services are accessible to a wide range of customers. The banks can also offer basic banking services via WhatsApp.

These banks can develop an application to process and disburse credit to support micro-entrepreneurs throughout the country. These can use AI tools to obtain, analyse and process information from the banks' customers. In this way, they can significantly reduce the processing time of a credit application to the benefit of the customer.

Value-based banks can create tailored lending solutions to serve and support those who have been historically excluded from traditional financial services. Traditional credit scoring models leave many qualified borrowers out for different reasons, including unconscious biases and systemic flaws. To address this, banks can partner with AI companies whose AI-powered underwriting system makes sure that more equitable and efficient credit decisions are made. By using AI-driven insights, banks can improve loan performance tracking and significantly increase automated approvals for different types of loan. This would allow them to provide faster decisions and expand access to credit for marginalised groups.

Whether through AI, mobile banking vans, WhatsApp banking, agent networks, or traditional branches in remote areas, value-based banks do innovate solutions to ensure everyone has access to financial services.

Why Digital Public Infrastructure Matters



What is DPI?

DPI combines digital systems for ID, payments, & data sharing that enable countries to safely and efficiently deliver economic opportunities & social services to all residents.



DPI offers opportunities in finance, health, health, agriculture and more.



When the Covid-19 pandemic struck, the governments around the world rushed to send emergency payments to their people as lockdowns ground their economies to a halt. Some countries dispensed funds to millions of people within weeks. Others took months, sent money to the wrong people, or excluded qualified recipients. How quickly people received money depended largely on whether they lived in a country with a strong digital public infrastructure (DPI).

DPI can be a game changer for any country, but especially low- and middle-income countries, where it can help accelerate economic growth by an estimated 20% to 33%. DPI creates opportunities that help people thrive—across sectors such as health care, agriculture, and financial inclusion—while enabling women's economic power.

Why DPI is important

DPI is a digital network that enables countries to safely and efficiently deliver economic opportunities and social services to all residents. DPI can be compared with roads, which form a physical network that connects people and provides access to a huge range of goods and services.

DPI allows people to open bank accounts and receive wages faster and more easily. It allows governments to support citizens more quickly and efficiently, especially during emergencies. And it enables entrepreneurs to reach customers far and wide.

What is a strong DPI

A strong DPI has three foundational systems—identity, payments, and data exchange—that together can make life easier in

important ways.

Identity: Being able to prove who you are—using a legal form of identity—enables a person to fully participate in society and the economy. Yet some 850 million people around the world do not have official proof of their identity. A digital identity allows people to access a wide range of goods and services, including bank accounts and lines of credit, supplies and markets for their businesses, and government benefits.

Payments: A rise in digital payment platforms allows millions of people, especially women, to conduct secure financial transactions without cash for the first time. However, 1.4 billion people still do not have a financial account. Secure and interoperable digital payment systems can help close this gap. With digital payments, people, businesses, and governments can instantaneously send and receive money even if they use different banks or mobile service providers.

Data exchange: A data exchange system allows data to be shared between otherwise unconnected institutions in ways that benefit people, while also giving individuals more control over their data and helping them make informed decisions about its use. For example, a loan applicant can prove their credit-worthiness, or a patient can opt to have their medical history accessible to multiple health providers in order to receive more integrated and appropriate care.

DPI affect a country's economy

When the three core systems—identity, payments, and data exchange—exist simultaneously and can talk to one another, people, businesses, and governments can reap the full benefits of DPI. Over time, safe and inclusive DPI creates vibrant and competitive economies.

Individuals benefit because they can safely and cheaply receive wages, pay bills, access services, and conduct transactions, whatever their position in society and wherever they live. Take India, which has one of the most advanced DPIs in the world. In a little over 10 years after launching its digital identity system, the number of adults with bank accounts more than doubled, to 78%, and women's account ownership grew even faster, from 26% to 78%. And when India's identity and payment systems were combined, it helped bring more women into the labour force because they had bank accounts and could receive their wages digitally, directly into their accounts.

Businesses benefit because DPI stimulates the market. Digital service providers have equal opportunity to compete and reach new customers and markets, and entrepreneurs can use the infrastructure to innovate and launch new businesses. Through DPI, an estimated 16 to 19 million microbusinesses and small businesses globally could gain access to capital to support sustained growth.

Governments benefit because they can provide essential services to every resident. For example, Estonia's X-Road digital infrastructure enables the government to provide 99% of public services online. Services are so efficient that a person can file taxes in under five minutes and register a business in just three hours.

Building DPI

There is no set way to build DPI, but countries that start with a comprehensive strategy to build interoperable identity, payment, and data exchange systems will have greater success.

And fortunately, countries do not have to start from scratch. They can draw on proven digital public goods—affordable, flexible, open-source technologies that serve as building blocks—to build their systems and ensure that they meet the needs of their economies and people.

Modular Open Source Identity Platform (MOSIP), is a customisable digital identity system built by researchers in India that has been adopted by many countries. Mojaloop is another open-source digital payment system that many countries are using as a core DPI technology.

DPI is important for countries facing crises like

climate disasters, pandemics, and other emergencies

During a crisis such as the Covid-19 pandemic, countries with DPI can speedily and securely help their citizens by delivering emergency payments to those who need them most. For example, within weeks of the initial pandemic lockdown, India digitally transferred emergency payments to 300 million people, including 200 million low-income women.

Even countries with partial DPI systems are able to meet their people's needs much more effectively during the pandemic. For instance, countries can use election registry and digital payment channels to expand social assistance coverage with emergency funds.

In countries without DPI, pandemic relief payments are delayed, are sent to the same people multiple times, or do not reach the right people. These challenges raise awareness of the benefits of DPI and prompt countries to quickly begin adopting DPI systems.

DPI can help reach the SDGs

DPI can advance many of the Sustainable Development Goals (SDGs), the 17 global goals for 2030 adopted by all United Nations member states.

DPI reduces inequality by making it easier for the public and private sectors to expand banking, credit, and payment services, especially to women and others who have traditionally been left behind.

DPI promotes health and well-being. A child who gets a legal form of identity at birth that is linked via a data exchange system to clinics and pharmacies can receive better health care over the lifetime. Aggregated health data can help providers share information to improve patient care, and governments can better track illness and disease across communities.

DPI promotes sustainable and inclusive economic growth. When small farmers and rural entrepreneurs can access global weather forecasting data, digital early warning systems, and digital payments, they can better plan their cropping cycles, protect against pests and weather shocks, and find new markets. The

Financial Inclusion

Reduces Poverty and Income Inequality

Access to financial services can transform lives and improve economic outcomes.

Poverty Reduction



Higher Savings

60% Increase in household savings



Income Growth

50% Rise in small business income



Better Education & Health

40% More spent on education & healthcare

Reducing Income Inequality



Empowering the Poor

Access to credit & banking for low-income families



More Jobs & Opportunities

30% More employment in disadvantaged groups



Women's Empowerment

45% Increase in women's financial inclusion

Financial Inclusion Leads To:



Economic Growth



Reduced Inequality



Improved Well-being

For vulnerable groups struggling with poverty and income inequality, financial inclusion — and financial institutions — can be a crucial bridge to a brighter future. By offering individuals and families support and tools to save their hard-earned money, they can build resilience and savings to prepare for shocks or plan for the future.

Financial inclusion can also be a force of global empowerment and equalisation. In a world where 1.4 billion people remain unbanked or underbanked, gaining access to financial services can be a transformative step towards economic prosperity.

Exclusion from financial products and services significantly impacts traditionally underserved groups, including the poor, women, small farmers and people operating cottage, micro and small enterprises (CMSEs).

Financial inclusion equips these individuals with the means to save, invest and grow their incomes, ultimately shielding them from the financial hardships that poverty and income inequality impose.

The goal of financial inclusion is to ensure that financial services, such as savings, credit, loans and insurance, are accessible to all segments of society, especially those that have been historically marginalised or underserved. The World Bank considers financial inclusion a key component for eradicating extreme poverty and cultivating shared prosperity.

Financial inclusion serves as a bridge to full-scale participation in the formal economy. With access to financial tools, individuals can grow their businesses, save for emergencies and help their communities.

Barriers to Financial Inclusion

Financial inclusion remains a challenge in low and middle-income countries, hindering economic development and perpetuating poverty for millions of people. Several barriers contribute to the problem. First and foremost is the lack of access to formal financial services, such as banking, savings accounts and credit.

Rural communities, in particular, face significant barriers to financial inclusion, largely due to

geographical remoteness, inadequate digital infrastructure, and low levels of literacy and financial literacy.

Traditional brick-and-mortar banks are scarce and internet connectivity is often unreliable in many communities, making it difficult for people to access basic financial services. Physical distance, coupled with the high cost of transportation, discourages many from engaging with the formal financial sector. People may also lack the formal documentation required to apply for credit or open bank accounts.

In low-income countries, entrenched patriarchal norms often impede women's access to financial resources, as societal expectations and traditional gender roles may limit their ability to work or control their finances. The lack of access to education and financial literacy, plus legal and institutional challenges, creates even more barriers for women.

Financial Literacy Is Key to Inclusion

Another significant barrier is the widespread lack of financial literacy and education. Many people in low and middle-income countries do not have access to financial education and may be unfamiliar with financial concepts and products, making it challenging for them to navigate the complex financial landscape.

Without proper knowledge or skills, people are vulnerable to making uninformed decisions or being taken advantage of by predatory lenders. Cultural and social factors can also play a role, stemming from negative historical experiences with institutions or a preference for informal, community-based financial systems.

Financial Inclusion and Poverty

There is much more to financial inclusion than simply providing access to financial services; it embodies a vision for economic empowerment, poverty reduction and sustainable income. "Farming communities need to be able to build secure savings and access credit for timely investments in their farming businesses so that they can thrive and also be more resilient to the shocks when they come", says Surita Sandosham, President and CEO of Heifer International.

Savings: Access to formal savings accounts or

informal savings groups allows individuals to accumulate and safeguard their financial resources. Even small savings can have transformative potential, as they provide a financial safety net for people to maintain stability and guard against unexpected expenses.

Access to Credit: Access to credit and capital facilitates the expansion of farms and small businesses, leading to increased incomes. Inclusive financial systems play a critical role in leveling the playing field, enabling individuals to break free from the constraints of income inequality.

Financial Technology: Access to financial technology, such as mobile banking, digital payments, inventory management and peer-to-peer lending, can have a profound impact on farmers and business owners living in rural areas. When the right tools are available, fintech provides unprecedented access to financial services, education and institutions.

Financial Education and Financial Literacy: One of the pivotal components of financial inclusion is empowering individuals with the knowledge to make informed financial decisions. Educational programmes can foster financial literacy, enabling individuals to manage their finances effectively and make the most of available services.

Increasing Financial Inclusion

Because of the many barriers people from rural farming communities face in accessing financial services, innovative strategies are required to provide economic mobility and an equitable distribution of resources. “Facilitating access to appropriate financing tools is a key element in our holistic approach”, says Surita, “We work with multiple partners to connect smallholder farmers with financial service providers. And we want to help the smallholder farmers develop their products and business models”.

Self-help Groups

These community-based groups provide financial training and inclusion for those who have been systematically denied access due to cultural, social or geographic barriers.

Self-help groups and cooperatives pool their savings and resources to invest in their

businesses and provide loans to members. This strategy empowers individuals to move from living hand-to-mouth to running profitable agribusinesses, earning sustainable incomes and saving for future uncertainties.

In rural areas, women can form self-help groups and are able to save little by little to start a business, grow their incomes and provide for their families. In these groups, they can learn how to save money and build focus and vision in order to work towards achieving desired goals.

Members of youth groups can contribute their individual savings to form a collective savings-and-loan fund. Entrepreneurship can be encouraged through peer-to-peer support and weekly meetings in which members gather for training and discussion on new business investments.

Credit and Loans

By enabling individuals to access affordable credit, financial inclusion reduces poverty. It is essential to have working capital in any business, especially farming, in which land, livestock and farming equipment can be quite expensive.

Impact Investing: Impact capital provides affordable finance to farmers and cooperatives through various investment products. For example, a revolving line of credit and financial education can be provided to the farmer cooperatives, enabling them to purchase products from small-scale farmers to meet bigger orders and provide farmers with access to finance at lower rates. Similarly, impact capital loans can enable the dairy cooperatives to establish a well-equipped milk processing plant that can produce a variety of dairy products, which creates employment opportunities in the community and improve incomes for local farmers.

Facilitating Formal Lending: To unlock financing for smallholder farmers, local banks and financial institutions can be linked with agricultural cooperatives. Using corporate guarantees, this model can provide smallholder farmers with low-risk, high-performance loans.

Partnerships: Through partnerships with relevant institutions, credit can be extended, say, to small poultry farmers. The social enterprises can provide tailor-made loans and financial education

to smallholder farmers. As a result of the partnerships, farmers who take out loans can have significantly higher annual incomes than those who did not.

Financial Technology

In this rapidly advancing digital age, mobile banking and digital payment solutions have emerged as transformative instruments for promoting financial inclusion and reducing poverty. They have made it easier for people in remote and underserved areas to engage in financial transactions, receive payments and access government assistance.

The banks can now provide mobile banking services to smallholder farmers. With special mobile apps, users can quickly and easily move money in and out of their accounts, pay for services and accept payments. This makes it convenient for smallholder farmers to handle their finances anytime and anywhere from their phones.

Partnerships can be developed among interested institutions to connect millions of smallholder farmers to, say, the Community Pass. The Community Pass would address financial inclusion challenges in rural communities, such as a lack of formal identification, unreliable connectivity and low smartphone ownership, by creating digital identification smart cards that can be used offline to access financial services without the need for a mobile device.

Partnerships may also be organised with agritech and tractor-sharing companies, to provide pay-as-you-go loans to young entrepreneurs to purchase tractors and make them accessible to thousands of additional smallholder farmers. This innovative financing model emphasises financial inclusion for entrepreneurs lacking traditional forms of collateral, enabling them to acquire tractors and make payments against their loan through leasing services to local farmers.

Financial Literacy Training

Financial inclusion aims for equitable participation in the formal economy. Financial literacy and business training can be facilitated through self-help groups and cooperatives that can empower smallholder farmers to improve their operations and make decisions about their

financial future.

Training in business planning, including developing a business plan, savings, loans, marketing and maintaining records, all contribute to sustainable financial growth. Farmers also learn about effective animal management and sustainable farming practices to improve production and maximise profits.

Self-help groups are ideal for delivering financial literacy training to those excluded from formal education due to societal or cultural biases. In particular, women can form groups to share financial literacy, business and farming skills.

Transformative Power of Financial Inclusion

In rural areas, efforts are needed to improve access to financial services for agricultural communities and CMSEs, which are historically financially underserved populations. The need is to expand opportunities and identify tools that increase financial inclusion for farmers and CMSEs which will shape a world that is more inclusive, equitable and prosperous.

Financial inclusion offers many pathways for individuals and communities to lift themselves up. The benefits of financial inclusion extend beyond economics: they promote the development of communities that can fulfill their needs and build for the future. Financial inclusion ensures dignity, independence and self-reliance.

As we look to address global poverty and income inequality in a meaningful and sustainable way, financial inclusion holds the key to helping people establish successful businesses and resilient lives.

