



**FINCA**<sup>®</sup> Forward



## MARKET CONTEXT

*How to enable MFIs to onboard fintech innovation for mutual growth and scale?*

### **MFI Perspective: Facing the Innovation Gap**

Microfinance institutions (MFIs) first exposed a market gap in traditional banking by demonstrating that the unbanked can be reliable customers. Today, MFIs serve over 130 million clients globally. Yet, despite the growth of financial services focused on the underserved, 1.7 billion adults around the world remain unbanked, more than half of whom are women.

Financial technology (fintech) is rapidly changing the market, paving new pathways to customers and introducing a host of opportunities. Emerging fintech solutions can help MFIs reduce their operational costs and broaden their reach. Most importantly, these technologies offer the possibility of achieving unprecedented financial inclusion at scale for the unbanked, which is proven to reduce poverty, hunger and gender inequality.

MFIs must quickly adopt and adapt to emerging technologies, such as new data analysis solutions that improve credit scoring, or digital delivery channels, like mobile phones. While many new fintech offerings have emerged to serve the client directly, there is a need for greater innovation in enterprise solutions that can support MFIs. However, the rate of innovation and flow of new fintech entrants to the marketplace is overwhelming to even the world's leading financial institutions. MFIs, therefore, need a systematic and focused way to evaluate new technologies and compare varied, new solutions that are transforming banking globally.

### **Fintech Perspective: Facing the Pioneer Gap**

Technology innovation coupled with the growing penetration of mobile phones is expanding the frontiers of financial inclusion. Small and growing businesses (SGBs) are using fintech solutions to change how payments are being made, to rethink eligibility assessment for loan and insurance products, or to devise new digital savings tools. These lean, agile and innovative fintechs are creating pioneering and disruptive solutions at every point in the financial services value chain and making financial inclusion more accessible and affordable than ever.

To ensure their innovation demonstrates strong product-market fit, early-stage fintech companies must refine and test their value propositions with prospective customers: MFIs and end-users. Fintech start-ups are also growing quickly and need investor capital on an on-going basis. Yet, funding from investors is often contingent on a demonstrated ability to generate robust customer demand.

MFIs and banks expect finished products from vendors with strong balance sheets. When treated from the outset as traditional, mature vendors, fintech startups struggle to work effectively with important potential customers. To succeed, fintechs also need a systematic way to work with MFIs, access customers, test their technologies, improve their product, and establish marketplace credibility to attract investors that can help them overcome the pioneer gap and scale their impact.



## Partnering for Accelerated Growth and Scale

With operations in 20 countries across five continents—a representative cross-section of markets served by the global MFI community—FINCA sees a sector in need of a systematic way to investigate, test and onboard new collaborations with fintechs to, collectively, reach and serve more clients responsibly.

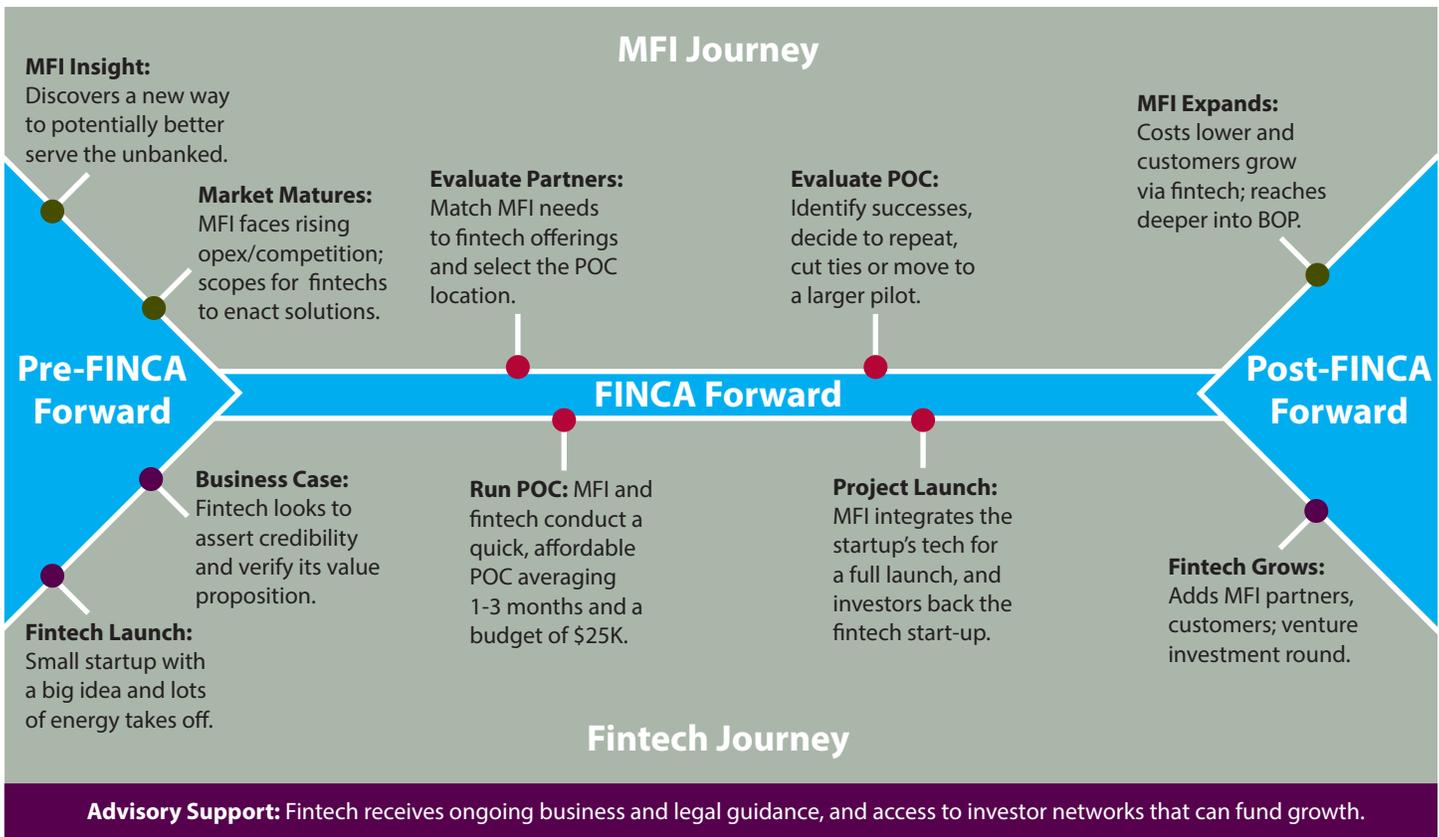
**FINCA Forward**, a pilot managed by FINCA International, aims to facilitate collaboration between early-stage fintech enterprises and MFIs. This innovation platform will test the hypothesis that bringing early-stage fintechs and financial institutions together in a proof-of-concept (POC) environment can help SGBs overcome the pioneer gap and enable MFIs to affordably and systematically onboard emerging fintech innovations to better reach underserved and underbanked populations with affordable, accessible financial services.



# HELPING MFIs AND FINTECHS ADDRESS COMMON PAIN POINTS

	TAKING EVERYDAY CHALLENGES...		...AND TRANSFORMING THEM INTO SOLUTIONS
<b>MFIs</b>	Innovating in the face of high competition, changing customer needs and marketplace uncertainty.	<b>FINCA Forward</b> <i>An innovation platform that brings MFIs, fintech SGBs and investors together to test, learn and catalyze private investment into fintech innovations serving the bottom of the pyramid (BOP).</i>	Benefit from coordinated collaboration with fintechs to address business needs through innovation.
	Establishing a cohesive process for engaging fintechs, often resorting to reactive, one-off engagements.		See all fintech offerings in a vertical with systematic introduction and onboarding of new fintech products.
	Running traditional fintech engagements are lengthy, costly and lack the environment for experimentation.		Test fintech innovations quickly and affordably prior to integration and commercial launch.
	Balancing innovation via disruptive, unproven technologies with requisite risk management as a regulated MFI.		De-risk with lean POCs for rapid decision-making.
<b>Fintechs</b>	Lacking marketplace credibility and a customer base.		Access customers immediately via a recognized, trusted brand (FINCA) serving nearly two million clients per year.
	Needing real-world, practical opportunities to test new technologies in an established MFI context.		Run POCs within the context of FINCA Impact Finance, one of the largest financial services networks of its kind.
	Tapping into the business networks needed to operate in some of the world's most challenging markets.		Gain connections to a network of business, investor and government relationships via FINCA Impact Finance.
	Attracting investment and honing core competencies across a range of issues, and quickly.		Attract seed-stage investment and get holistic support including business consulting, legal guidance and more.

## FINCA Forward: A New Collaboration that Brings MFIs, Fintechs and Funders Together



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FINCA was founded in 1984 on a radical notion: giving small loans to the poor has the power to transform entire communities in a sustainable way. After impacting tens of millions of lives with responsible financial services, we are widening our focus to catalyze further economic growth and alleviate poverty in underserved markets around the world. We remain boldly committed to market-based solutions, and are supporting the rise of social enterprises delivering basic service and financial innovation to help low-income families and communities achieve a better standard of living.