



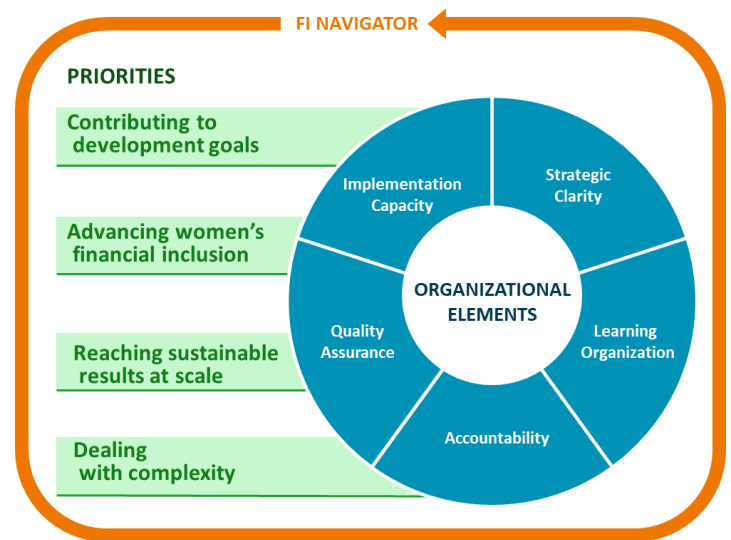
An independent review of AFD Group’s achievements and challenges in advancing financial inclusion

Financial Inclusion at AFD Group and Rationale for Participating in the Navigator

AFD Group’s financial inclusion operations are grounded in its five-year strategic framework for financial systems development (Financial Systems Strategy 2018–2022) that supports the development of inclusive financial market ecosystems and encourages innovation in financial services. Financial inclusion intersects with AFD Group’s strategic commitments on social link, gender equality, combatting climate change, and addressing fragility. These strategic objectives have resulted in AFD Group expanding its operations in financial inclusion over the past few years with increased financial commitments, more dedicated staff, and the diversification of its intervention instruments to support partners. According to the CGAP Funder Survey, AFD Group’s financial inclusion portfolio has increased from US\$0.4 billion in 2010 to US\$1.6 billion in 2020¹.

As a member of CGAP, a global partnership with a mission of advancing financial inclusion to improve the lives of the poor, AFD Group actively contributes to a forward-looking reflection on what it takes for funders to advance financial inclusion. Financial inclusion is increasingly seen as an enabler of development goals. The vision of financial inclusion itself is evolving beyond financial access as we learn more about how financial services can support poor people in seizing opportunities and building resilience. This generates opportunities but also adds complexity around the challenges funders are seeking to address.

Together, CGAP members are seeking to exchange learnings and emerging approaches to take on these opportunities and address common challenges. The **Financial Inclusion Navigator** (‘the Navigator’) is an initiative facilitated by CGAP to identify these opportunities and challenges and generate insights into how funders can support financial inclusion more effectively. Through a standardized review process, the Navigator aims to gain an in-depth understanding of **five organizational elements** that enable or inhibit a funder’s ability to deliver on **four strategic priorities** (see diagram). As the inaugural CGAP



¹ See <https://www.cgap.org/FunderSurvey>

member to participate in this initiative, AFD Group demonstrates its openness to learning and strong commitment to effectiveness. It also sets an example for other financial inclusion funders to follow.

This Executive Summary highlights the key findings from a review process that the AFD Group (AFD and Proparco) and CGAP undertook between September 2021 and April 2022 to identify AFD Group's achievements and challenges in advancing financial inclusion.

Scope and Methodology

The Navigator focuses on AFD Group's ability to deliver development impact through its financial inclusion operations. The thematic scope of the review is in line with AFD Group's Financial Systems Development Strategy. In addition, the Navigator captures the links between financial inclusion and other sectors and AFD Group's cross-cutting agendas such as social link, addressing fragility, the digital transition and protecting the planet.

The Navigator paid specific attention to how AFD and Proparco are working together in financial inclusion. It recognizes ongoing organizational change processes such as the integration of Expertise France, the decentralization of technical staff in regional/country offices, the mid-term evaluation of the financial systems strategy and the development of new overall strategic priorities (POS) for AFD Group.

The review team drew on diverse sources of information to gain an in-depth picture of how AFD Group works in financial inclusion. CGAP reviewed over 80 documents, analyzed survey responses from 164 staff, conducted 24 semi-structured interviews with 30 staff from different divisions, and facilitated a focus group discussion on women's financial inclusion.

Key Findings

With AFD, Proparco and more recently Expertise France, the Group is well positioned to address constraints in the entire financial system to make it more inclusive through a variety of intervention approaches and financial instruments. The ongoing efforts to support the transformation agenda of partner countries in a more systemic way are promising.

The following presents a summary of key findings from the Navigator review process, including organizational achievements and challenges. For the complete list of findings and recommendations, please refer to the main report.

Contributing to Development Goals

The Navigator reviewed how AFD Group strategically positions financial inclusion relative to its strategic objectives and cross-cutting agendas, and how the organization is equipped to deliver on its strategic commitments.

- AFD Group has a group-wide financial systems development strategy which strongly positions financial inclusion as a contributor to SDG 8 (inclusive and sustainable economic growth).
- AFD Group is well placed to proactively explore opportunities at the nexus of financial systems development and other development goals.
- A group-wide vision for financial systems development in partner countries could enable AFD Group to be more effective in transforming financial systems.

- Technical experts and country office staff with local knowledge jointly design financial inclusion projects/investments; access to technical expertise could be improved.
- AFD Group invests in training, knowledge management and peer exchange on financial inclusion through a variety of formats and there is an opportunity to better capture learnings from its portfolio of operations.
- Monitoring practices could better inform the implementation of projects/investments.

Advancing Women's Financial Inclusion

The Navigator reviewed how AFD Group is equipped to advance women's financial inclusion.

- AFD Group's high-level commitments on gender equality have helped align staff around this priority. Translating these commitments into concrete objectives would help set incentives for staff to identify and propose projects/investments with a strong focus on women's financial inclusion.
- AFD Group has made significant investments to strengthen its capacity to deliver on gender commitments.
- Responsibilities for integrating a gender perspective in financial inclusion projects are clearly defined; processes could further encourage staff to tackle fundamental constraints women face in accessing, using, and benefitting from financial services.
- A more systematic use of diagnostics that analyze women's barriers in accessing and using financial services could strengthen AFD Group to deliver on its gender equality commitment through women's financial inclusion.
- Monitoring and results measurement systems could better support project management in monitoring and measuring how financial inclusion projects/investments contribute to women's financial inclusion, empowerment, and gender equity goals.

Reaching Sustainable Results at Scale

This priority recognizes that impact needs to benefit a large number of people, including the target group, and needs to be sustained beyond the project/investment lifetime. The Navigator looked at how AFD Group catalyzes change to achieve sustainable impact at scale.

- AFD Group has begun to integrate a more systemic lens in its financial inclusion work; a next step could be to further articulate how AFD Group's financial and technical assistance for financial institutions contributes to this systemic vision.
- AFD Group aims to avoid distorting markets; processes could be introduced to ensure every project/investment aims for a future without development funding with defined exit plans.
- AFD Group's network of country and regional offices provides a good understanding of local contexts that could be better leveraged to ground project identification and design in country-level diagnostics of constraints in the financial system.
- AFD and Proparco play complementary roles, can work with a broad range of market actors, and have a diversified range of financial and technical instruments; there is an important opportunity to have a thorough reflection on how to work together towards a shared transformational agenda at the country level.

Dealing with Complexity

Building inclusive financial systems is complex because systems are in constant and rapid evolution with changing functions and rules, actors entering and exiting the market. Dealing with this complexity

requires organizational culture, capacity, and processes that enable experimentation, flexibility, project adaptation, and learning from mixed results. The Navigator reviewed whether AFD Group's organizational practices enable the Group to manage complexity, especially in fragile, conflict, and crisis contexts.

- AFD Group has a few mechanisms in place that allow staff to support experimentation; there is an opportunity to better connect learnings from these mechanisms with AFD Group's mainstream operations in financial systems development.
- AFD Group has positive examples of adapting projects/investments in fragile, conflict and crisis-affected contexts during implementation; lessons could be drawn to identify ways to make this process easier for projects/investments in non-fragile contexts.
- AFD Group's culture encourages sharing different perspectives including from projects/investments with mixed results; processes could be strengthened to more systemically learn from experiences.

Recommendations

The following recommendations focus on common challenges that have emerged from the Navigator review. While the Navigator focuses on financial inclusion, some of the findings touch upon broader organizational aspects which influence AFD Group's capacity to advance financial inclusion positively or negatively. CGAP recognizes that influencing these aspects would require deeper organizational changes which are beyond the mandate of the financial systems development teams at AFD and Proparco. CGAP encourages AFD Group to leverage the momentum of the ongoing strategy development process to further strengthen the positioning of financial inclusion as a contributor to AFD Group's strategic goals, as well as capitalize on AFD and Proparco's complementary roles to support partner countries on their way towards inclusive financial systems.

Define strategic sweet spots at the intersection of financial inclusion and strategic objectives such as climate action, strengthening the social link, and addressing fragility. Based on existing strategies and emerging impact narratives, AFD Group could define concrete opportunities to drive development impact through financial inclusion operations. Identifying such opportunities and defining the role AFD Group wants to play would help staff at headquarters and country offices be more proactive in looking out for potential projects and investments in areas where financial services intersect with other sectors and contribute to strategic objectives.

Ground AFD Group interventions in country-level visions for financial systems development. Leveraging existing collaboration mechanisms and early experiences of joint approaches (e.g., Burkina Faso, Tunisia), AFD Group could develop shared visions for financial systems development in partner countries. A shared vision would help improve the complementarity of AFD and Proparco and potentially open new areas for AFD Group to catalyze change. These visions should be based on diagnostics of constraints in the financial system, their root causes, and an understanding of how inclusive financial systems contribute to making connected systems such as agriculture or entrepreneurial ecosystems work better.

Clarify AFD Group's ambition to support innovation to transform and build more inclusive financial systems and strengthen its capacity accordingly. In recent years, AFD Group has been implementing a variety of mechanisms to encourage and enable innovation and experimentation. While there are several examples of financial systems development projects that leveraged these

mechanisms, these efforts remain small and dispersed. In the context of the financial systems strategy mid-term evaluation and the Group's overall strategy development process, it will be important to clarify whether promoting innovation should be more central to its work to transform financial systems. If that is the case, AFD Group needs to strengthen its capacity accordingly.

Develop a measurement and monitoring system that supports AFD Group's transformational role in financial systems development and sets the right incentives. As with other DFIs, AFD Group could increase its value-add by identifying upfront in a theory of change how each intervention will be translated into meaningful system-level changes. By defining upfront the systemic change it wants to achieve, AFD Group could set stronger incentives to focus on interventions with the potential to transform the financial system and to support 'transmission mechanisms' which help spread inclusive approaches across the financial system (e.g., by sharing information, facilitating industry coordination, etc.). Furthermore, project/investment-level measurement systems should generate information that is useful for *improving* implementation and future project/investment design, not only *proving* that operations are achieving results.

Explore opportunities to play a stronger role in facilitating inclusive financial systems development in partner countries. AFD Group could leverage its strong local presence more intentionally to facilitate change in local financial systems. This requires a more systematic analysis of the market context, a clear vision for financial systems development as well as exit plans which take into account the external, temporary role AFD Group plays.

Further action

CGAP encourages AFD Group to develop a more detailed action plan based on these recommendations and remains available for further discussions on how to implement them. As other CGAP members are participating in the Navigator, CGAP will distill general lessons learned and facilitate peer learning among funders.