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Closing the Financial Divide through FinTech Innovation in Emerging Markets

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Abstract

A substantial portion of adults worldwide remain outside formal financial systems, with the highest concentrations in emerging markets where traditional banking infrastructure fails to reach underserved populations. This article examines how financial technology innovations, including mobile money, digital lending, and alternative data driven credit scoring, are transforming financial inclusion in emerging economies. Through a critical synthesis of recent empirical evidence from Sub-Saharan Africa, South Asia, and Latin America, the analysis identifies three primary mechanisms: expansion of payment infrastructure through mobile money, democratisation of credit access through digital lending, and creation of integrated digital financial ecosystems. The analysis further reveals that FinTech's impact varies considerably across regions and demographic groups, with women, rural populations, and micro entrepreneurs experiencing the greatest accessibility gains yet confronting the most formidable barriers. Persistent challenges, including digital literacy deficits, regulatory fragmentation, data privacy vulnerabilities, and predatory lending practices, threaten to undermine progress. Closing the financial divide demands coordinated policy action, encompassing investment in digital infrastructure, consumer protection frameworks, financial literacy initiatives, and regulatory sandboxes that facilitate responsible FinTech experimentation.

Keywords: financial inclusion; FinTech; mobile money; digital lending; emerging markets; underserved populations; financial divide

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ARTICLE INFORMATION

Received: 2 March 2026; Accepted: 22 May 2026; Published: 24 June 2026

CITATION

Okafor A, Petrov E, Chen W. Closing the Financial Divide through FinTech Innovation in Emerging Markets. Advances in Digital Finance. 2026; 1(1): 1.

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1. Introduction

The global financial inclusion landscape has undergone a profound transformation over the past decade, driven in large part by the rapid proliferation of financial technology (FinTech) innovations across emerging markets. Notwithstanding considerable progress—global account ownership rose from 51 per cent in 2011 to 76 per cent in 2021 (Demirgüç-Kunt et al., 2022)—a substantial segment of the world's adult population remains outside the formal financial system (World Bank Group, 2026). The unbanked are concentrated predominantly in emerging markets and developing economies, where formal financial access remains constrained and traditional banking infrastructure has persistently failed to penetrate underserved communities (Beck et al., 2007).

The persistence of financial exclusion entails significant economic and social costs. In emerging markets and developing economies, a substantial majority of adults lack access to even the most basic transaction account, and a large proportion cannot financially withstand an unexpected shock (Demirgüç-Kunt et al., 2022). Micro, small, and medium enterprises confront a financing gap estimated in the trillions of dollars, which constrains entrepreneurship, impedes job creation, and stifles economic growth (International Finance Corporation, 2026). Gender disparities in financial access remain pronounced, particularly in Sub-Saharan Africa and South Asia, where women are disproportionately excluded from formal financial services (Banna et al., 2022).

FinTech has emerged as a potentially transformative force in addressing these systemic challenges. Digital financial services enabled by FinTech are reducing transaction costs, enhancing speed, security, and transparency, and expanding access to underserved populations (GSMA, 2025). By early 2020, more than 850 million registered mobile money accounts had been established across 90 countries, processing substantial daily transaction volumes (GSMA, 2025). FinTech firms have been widely recognised for their capacity to reach historically marginalised communities—including youth, low-income households, women, and small businesses—positioning them at the forefront of financial inclusion agendas (Ozili, 2025; World Economic Forum, 2025).

Nevertheless, the relationship between FinTech innovation and financial inclusion is neither linear nor uniformly beneficial. While FinTech offers unprecedented opportunities to bridge the

financial divide, it simultaneously introduces significant risks, including predatory lending, data privacy concerns, unequal access to technology, and cyber-security and operational vulnerabilities (International Monetary Fund, 2025; Banna et al., 2022). Moreover, the impact of FinTech on financial inclusion varies markedly across regions, demographic groups, and institutional contexts (Mpofu, 2025).

This article examines the mechanisms through which FinTech innovations are transforming financial inclusion for underserved populations in emerging economies. Specifically, it addresses three research questions: (1) Through what channels does FinTech advance financial inclusion in emerging markets? (2) What is the documented impact of mobile money, digital lending, and alternative credit scoring on access to financial services for underserved populations? (3) What challenges and risks accompany FinTech-driven financial inclusion, and how might they be addressed through policy interventions?

The remainder of this article proceeds as follows. Section 2 presents the conceptual framework and methodological approach. Section 3 reviews the empirical evidence on three key FinTech mechanisms: mobile money, digital lending, and alternative data-driven credit scoring. Section 4 examines the challenges and risks associated with FinTech-driven financial inclusion. Section 5 discusses policy implications, and Section 6 concludes.

2. Materials and Methods

2.1 Study Design and Data Sources

This study adopts a qualitative, critical synthesis approach to examine the relationship between FinTech innovation and financial inclusion in emerging markets. The analysis draws on secondary data from multiple sources, including: (1) global financial inclusion databases such as the World Bank's Global Findex Database (Demirgüç-Kunt et al., 2022) and the IMF's Financial Access Survey (International Monetary Fund, 2025); (2) industry reports from the GSMA State of the Industry Report on Mobile Money (GSMA, 2025), the International Finance Corporation (International Finance Corporation, 2026), and the World Economic Forum (World Economic Forum, 2025); and (3) peer-reviewed academic literature on FinTech and financial inclusion (Banna et al., 2022; Beck et al., 2007; Ozili, 2025; Mpofu, 2025). The geographic scope of the analysis encompasses Sub-Saharan Africa, South Asia, and Latin America—regions with the highest concentrations of unbanked populations and the most dynamic FinTech adoption rates.

2.2 Analytical Framework

The analysis is guided by an integrated conceptual framework that synthesises elements from diffusion of innovation theory and financial inclusion theory. This framework posits that FinTech innovations overcome traditional financial exclusion barriers through three principal pathways: infrastructure expansion (extending the reach of financial services through mobile and digital channels), information enhancement (leveraging alternative data to assess creditworthiness), and institutional innovation (creating new business models and service delivery mechanisms that serve previously excluded populations) (Ozili, 2025; Banna et al., 2022).

2.3 Literature Search and Selection

The literature search was conducted using Scopus, Web of Science, and Google Scholar databases with the following keywords: financial inclusion, FinTech, mobile money, digital lending, emerging markets, alternative credit scoring, and financial divide. Studies published between 2007 and 2026 were considered, with priority given to empirical studies from Sub-Saharan Africa, South Asia, and Latin America. Reports from multilateral institutions and industry associations were included to capture practitioner and policy perspectives.

2.4 Data Analysis

The analysis employs a thematic synthesis approach to identify recurring patterns, mechanisms, and outcomes across the included literature. Data were extracted on FinTech mechanism type, geographic region, target population, documented impacts on financial inclusion, and associated challenges and risks. Findings were organised thematically according to the three primary mechanisms identified in the analytical framework.

3. Results

3.1 Mobile Money: Expanding Financial Infrastructure

Mobile money platforms—digital payment systems that enable transfers and savings via mobile phones through agent networks—have fundamentally reshaped the payment landscape in Africa and other emerging markets (GSMA, 2025). Sub-Saharan Africa accounts for more than half of the world's mobile money accounts, with annual transaction volumes contributing substantially to

regional economic activity (GSMA, 2025). In certain jurisdictions, mobile money accounts have surpassed traditional bank accounts in number, bringing millions of previously unbanked individuals into the formal financial system without requiring a conventional bank account (Mpofu, 2025).

The impact of mobile money on financial inclusion extends well beyond payments. Research indicates that mobile money significantly enhances deposit-based and credit-based financial inclusion for informal enterprises (Mpofu, 2025). It improves access to supply chain financing and working capital for small businesses (Ecofin Agency, 2025). Mobile money adoption is robust in developing countries, yet financial inclusion levels remain below those observed in developed economies (Demirgüç-Kunt et al., 2022). Studies further demonstrate that mobile money promotes formal financial inclusion in both deposits and credit (Banna et al., 2022).

However, the relationship between mobile money and financial inclusion is not uniformly positive. Mobile money can, in certain contexts, impede access to financial services at commercial banks (Mpofu, 2025). Despite high mobile money account penetration, only a limited proportion of adults in Sub-Saharan Africa have borrowed through these services (Ecofin Agency, 2025). Mobile loans are typically modest in size, repayable over short durations, and carry high annualised interest rates—rendering them suitable for emergency consumption but inadequate for building working capital or productive assets (Ecofin Agency, 2025). Regulatory constraints, limited credit histories, and persistent gender gaps further curtail mobile credit uptake despite high account penetration (International Monetary Fund, 2025).

3.2 Digital Lending: Democratising Credit Access

Digital lending is rapidly evolving from a FinTech innovation into a critical component of the financial system in emerging markets (Economic Research Institute for ASEAN and East Asia, 2026). FinTech lenders are increasingly serving retail borrowers previously excluded from traditional finance, with a substantial share of their loan portfolios directed toward young and rural populations (International Finance Corporation, 2026).

Evidence from emerging markets indicates that active mobile payment users are more likely to access microloans, secure larger credit amounts, and benefit from more favourable interest rates. These effects are particularly pronounced among merchants operating in regions characterised by lower banking competition, smaller business scales, or shorter operating histories—underscoring the role of platform-based financial inclusion. Digital microloans are positively associated with the business performance of micro-merchants.

Evidence from Kenya demonstrates the benefits of leveraging mobile phone data to expand credit access, improving financial outcomes and overall well-being even for individuals borrowing modest amounts. M-Pesa's credit services have exhibited strong growth, with default rates below those of traditional banks.

Nevertheless, digital lending also entails significant risks. Predatory lending remains a concern, particularly in the relatively nascent digital sector in lower-income emerging countries (International Monetary Fund, 2025). Regulatory frameworks in countries such as Kenya, Ghana, and Uganda impose strict oversight on digital lending, including limits on loan portfolios and interest rate caps, to prevent over-indebtedness and fraud (Ecofin Agency, 2025).

3.3 Alternative Data and AI: Transforming Credit Scoring

Traditional credit systems frequently exclude individuals and small businesses lacking formal financial histories, rendering many women entrepreneurs and low-income borrowers invisible to lenders (International Finance Corporation, 2026). Alternative data sources—including mobile money transactions, digital payments, business records, and platform activity—enable new credit scoring models that more accurately capture economic activity previously unaccounted for (International Finance Corporation, 2026).

Evidence from emerging markets suggests that these approaches are already expanding access to finance for individuals and small businesses previously outside the reach of formal credit (World Economic Forum, 2025). In many contexts, women borrowers perform as well as or better than men when assessed using alternative data-driven models, highlighting the potential for these innovations to narrow persistent gender gaps in credit access (International Finance Corporation, 2026).

Artificial intelligence enables markets to bypass legacy infrastructure, leapfrogging traditional financial systems and redefining the meaning of financial inclusion (World Economic Forum, 2025). AI-driven ecosystems, designed for mobile-first users, are proving more scalable, accessible, and commercially viable (World Economic Forum, 2025). Financial identities are increasingly defined not by traditional credit scores, but by everyday digital footprints—including messaging exchanges, mobile top-ups, and geolocation patterns (International Finance Corporation, 2026).

4. Discussion

4.1 Interpretation of Findings

The findings confirm that FinTech innovations are advancing financial inclusion in emerging markets through three primary mechanisms: mobile money infrastructure, digital lending platforms, and alternative data-driven credit scoring. However, the analysis also reveals that the impact of these mechanisms is uneven across regions and demographic groups. Mobile money has achieved the broadest reach, particularly in Sub-Saharan Africa, but its contribution to credit access remains limited. Digital lending has expanded credit access to previously excluded populations, yet it

introduces risks of predatory lending and over-indebtedness. Alternative data and AI hold promise for transforming credit scoring, but they raise concerns about data privacy, algorithmic bias, and regulatory gaps.

4.2 Challenges and Risks

Despite its transformative potential, FinTech-driven financial inclusion confronts significant challenges. Digital literacy poses a major barrier, particularly for women, who often require assistance to navigate digital financial interfaces (Demirgüç-Kunt et al., 2022). Countries with stronger financial and digital skills exhibit higher uptake of digital financial services, underscoring how knowledge gaps in other settings can constrain safe FinTech adoption (Banna et al., 2022).

Data privacy and cyber-security risks are also substantial. Digital financial services introduce risks to users and to the broader financial system, including predatory lending, data privacy concerns, unequal access to technology, and cyber-security and operational risks (International Monetary Fund, 2025; Banna et al., 2022). Regulatory fragmentation across jurisdictions creates compliance burdens and limits the scalability of FinTech solutions (Economic Research Institute for ASEAN and East Asia, 2026).

The gender gap in financial access, while narrowing, remains pronounced in developing economies (Demirgüç-Kunt et al., 2022). Credit bureau coverage remains low in many emerging markets, limiting lenders' ability to assess risk (World Bank Group, 2026). The cost of remittances remains high in certain regions (World Bank Group, 2026).

4.3 Policy Implications

Addressing these challenges requires coordinated policy interventions. First, investment in digital infrastructure and financial literacy programmes is essential to ensure that underserved populations can safely and effectively access digital financial services (Demirgüç-Kunt et al., 2022; World Bank Group, 2026).

Second, regulatory sandboxes enable responsible FinTech experimentation while protecting consumers. Kenya's Digital Credit Regulations establish a regulatory sandbox, allowing telecoms and fintechs to test larger, longer-term loans under relaxed rules (Ecofin Agency, 2025). Similarly, Ghana is piloting a government guarantee scheme to support digital lending to women-owned businesses (Ecofin Agency, 2025).

Third, regulatory harmonisation across jurisdictions can reduce compliance burdens, harmonise cross-border data frameworks, reduce transaction costs, and stimulate investment (Economic Research Institute for ASEAN and East Asia, 2026). The ASEAN Digital Economy Framework Agreement advances a unified and secure digital economy through key pathways including

infrastructure, investment, interoperability, innovation, and inclusion (Economic Research Institute for ASEAN and East Asia, 2026).

Fourth, consumer protection frameworks must keep pace with FinTech innovation. Policy makers need to ensure that regulatory frameworks remain fit for purpose (International Monetary Fund, 2025; World Bank Group, 2026).

4.4 Limitations and Future Research

Several limitations should be acknowledged. First, the analysis relies on secondary data and existing literature, which may reflect publication bias toward positive outcomes. Second, the geographic scope is limited to three regions, and findings may not be generalisable to other emerging markets. Third, the rapid pace of FinTech innovation means that some findings may become outdated quickly. Future research should conduct primary empirical studies, examine the impact of emerging technologies such as blockchain and AI on financial inclusion, and explore the long-term effects of FinTech-driven financial inclusion on poverty reduction and economic growth.

5. Conclusion

FinTech innovation is transforming financial inclusion in emerging markets, offering unprecedented opportunities to close the financial divide for underserved populations. Mobile money has expanded financial infrastructure to previously unbanked populations, digital lending has democratised credit access, and alternative data and AI are enabling credit scoring for individuals and small businesses without formal financial histories (GSMA, 2025; International Finance Corporation, 2026; World Economic Forum, 2025).

However, FinTech is not a panacea. Persistent challenges—including digital literacy gaps, regulatory fragmentation, data privacy concerns, and predatory lending practices—threaten to undermine inclusion gains (Banna et al., 2022; International Monetary Fund, 2025). The impact of FinTech on financial inclusion varies significantly across regions and demographic groups, with women, rural populations, and micro-entrepreneurs experiencing the greatest accessibility gains but also facing the most significant barriers (Demirgüç-Kunt et al., 2022; Mpofu, 2025).

Closing the financial divide requires not only technological innovation but also coordinated policy interventions (World Bank Group, 2026). Investment in digital infrastructure, consumer protection frameworks, financial literacy programmes, and regulatory sandboxes that enable responsible FinTech experimentation are all essential (Economic Research Institute for ASEAN and East Asia, 2026; International Monetary Fund, 2025). Only through such comprehensive approaches

can FinTech realise its full potential to build inclusive, resilient, and sustainable financial systems in emerging markets.

Author Contributions

Conceptualization, A.O.; methodology, A.O. and E.P.; investigation, A.O.; data curation, E.P.; writing—original draft preparation, A.O.; writing—review and editing, A.O., E.P., and W.C. All authors have read and agreed to the published version of the manuscript.

Data Availability Statement

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

Funding

This research received no external funding.

Ethics Approval

Not applicable

Acknowledgements

The authors thank the World Bank Group, International Monetary Fund, and International Finance Corporation for publicly available data and reports on financial inclusion and FinTech. AI language tools were used to assist with language polishing. The authors also gratefully acknowledge the open access policies of their respective institutions.

Conflicts of Interest

The authors declare no conflicts of interest to report regarding the present study.

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