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INDEPENDENT EVALUATION GROUP

Approach Paper

Financial Inclusion – A Foothold on the Ladder Toward Prosperity? An IEG Evaluation of World Bank Group Support for Financial Inclusion for Low-Income Households and Microenterprises

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Introduction

1. **Financial inclusion—the availability of an array of financial services to the poor – has become a growing focus for policy makers**, development partners, and other key stakeholders as a means to promote shared prosperity and reduce poverty**.** According to World Bank Group data, 2.5 billion adults worldwide are "unbanked" and close to 200 million 200 million formal and informal micro, small and medium enterprises in developing economies lack access to affordable financial services and credit.[1] Experience suggests that financial inclusion has the potential to accelerate growth and to enhance shared prosperity and conversely that lack of access to finance can lock people into poverty traps and inequality. [2]

2. **In late 2013, President Kim of the World Bank Group declared universal financial access by the year 2020 an aspirational goal** of the World Bank Group, a goal that is "within reach—thanks to new technologies, transformative business models and ambitious reforms."[3] For the World Bank Group, financial inclusion is now the main means through which financial development contributes to its objectives with regard to poor households and entrepreneurs. With the formation of a new Global Practice Group on Finance and Markets and the general reorientation and reorganization of the World Bank and the International Finance Corporation (IFC) to enhance focus on attaining the twin goals, understanding the lessons of recent World Bank Group experience is critical.

3. **The poor in particular are often excluded from financial services, but at the same time depend on such services to smooth their volatile (and low) incomes, protect against vulnerabilities or just facilitate day-to-day transactions.** Because of the circumstances they live in, the poor face specific constraints to accessing financial services which warrant systemic as well as tailor-made interventions. In light of the Bank Group's central goal of fighting poverty – reaffirmed by the 2013 strategy's dual goal of ending extreme poverty and promoting shared prosperity – this evaluation will focus on poor households and micro and very small enterprises (MVSEs).[4] It will analyze the Bank Group's interventions in light of the needs and constraints of the poor with regard to accessing financial services.

4. **Financial inclusion is high on the global development agenda.** With the creation of the Consultative Group for Assisting the Poorest (CGAP) in 1995, the world got its first global partnership of leading organizations seeking to advance financial inclusion. In 1997 the first Global Microcredit Summit took place and 2005 was the International year of Microfinance. As of 2008 the Alliance for Financial Inclusion, a network of financial policy makers, has aimed to increase access to appropriate financial services among the poor. In 2011, the Alliance drafted the Maya Declaration—a measurable set of commitments by developing country governments to expand financial inclusion—which has now been signed by more than 80 countries. The Group of Twenty (G20) created the Global Partnership for Financial Inclusion (GPFI) in 2010, an inclusive platform for all G20 countries, interested non-G20 countries, and relevant stakeholders to carry forward work on financial inclusion. At their summit in St. Petersburg in September 2013, the G20 leaders endorsed the G20 Financial Inclusion Indicators developed by the GPFI to track progress toward financial inclusion. The United Nations designated Queen Maxima of the Netherlands as Special Advocate for Inclusive Finance for Development.

5. **This evaluation is particularly timely and relevant, as it will review the experience of the World Bank Group, not only at a time of reorganization and renewed strategic focus, but also with a view toward informing the post-2015 development agenda**. The year 2015 will be the window from which the development world looks beyond and capitalizes on the momentum generated by the Millennium Development Goals thus far. Even though the Goals did not address financial inclusion, the post-2015 development agenda will likely show financial inclusion having a larger role in global development efforts to combat extreme poverty and boost shared prosperity. This evaluation will inform the strategic discussion in and outside of the World Bank Group about the role of financial inclusion and the ways the Bank Group can support it.

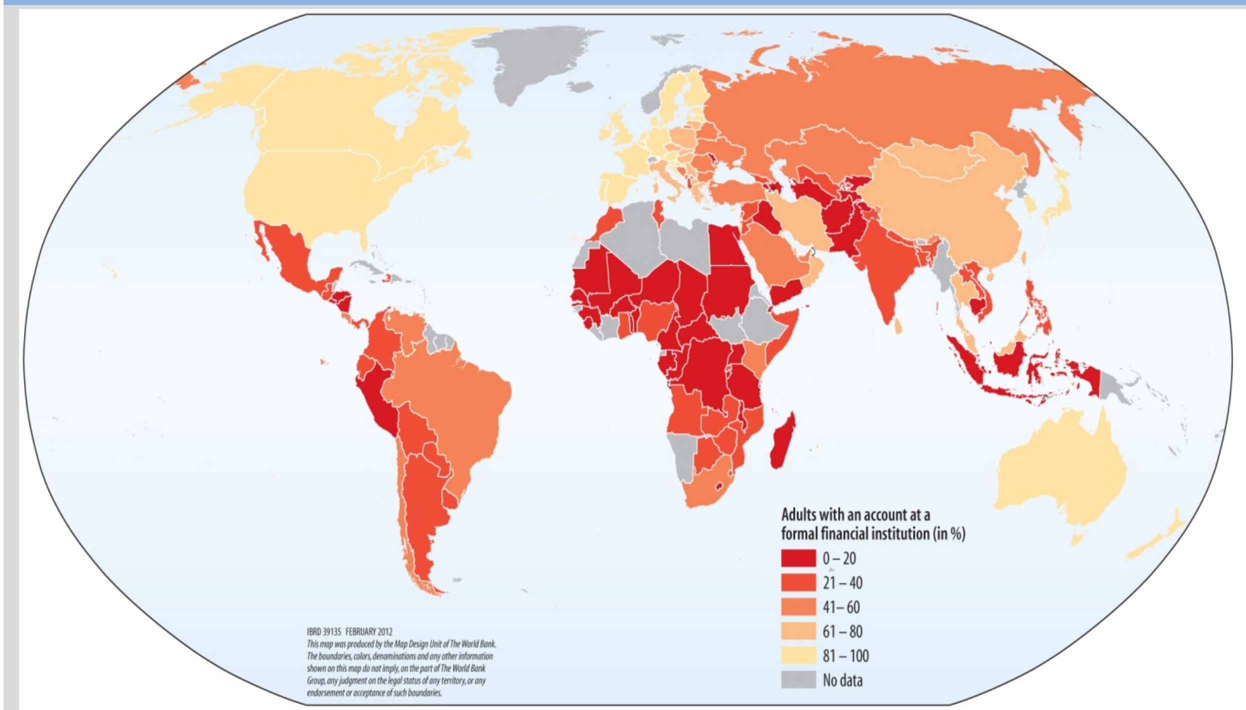
Background, Context, and Motivation

DEFINING THE CHALLENGE

6. **"Financial inclusion" is about offering access to *formal* financial services.** All those without a bank account – or access to any other financial services – with a formal financial institution such as a bank, credit union, cooperative, post office, or microfinance institution are among the financially excluded. In practice, there is a continuum of inclusion spanning those who use no financial services, those who use only informal services, those who use some mix of informal and formal services, and those who use exclusively formal services. Recent concepts of financial inclusion do not only refer to access, but also the usage and quality of financial services. [5] Even those with access to some formal financial service may be partially excluded by lack of access to others. It is also important to note that some people are voluntarily excluded from the financial system because they have no rewarding use of it or are content with informal alternatives.

7. **The poor are far more often excluded from formal financial services.** Of the 2.5 billion "unbanked" people, most live in developing countries. An estimated 59 percent of adults in developing countries are unbanked, compared to only 11 percent in developed countries. Amongst them the poor are hit the hardest: Of those living on $2 per day, fully 77 percent lack a bank account. Figure 1 visualizes the gaps in financial inclusion in terms of formal account penetration across the globe. Household income, education, and whether one lives in a rural area are factors that are strongly related to the extent of financial inclusion, even more so in developing countries (World Bank. 2014).[6]

Figure 1. Global Map of the Financially Excluded – Formal Account Penetration



Source: Demirgüç-Kunt and Klapper 2013.

8. **The poor face tremendous financial challenges and require access to financial services to meet essential needs, more so than the non-poor.** Poor families are more likely to send one of their members to far-away cities or even abroad, in the hope they would send home money—creating the need for money transfers (remittances). The income of the poor is not only lower, but also more volatile. People who live on average on $2 per day, make $4 one day, $2 the next, and $0 the day after, as they rely on a range of often unpredictable jobs and often lack salaried employment; or big earnings even come only once a season with, for instance, harvest income (Banerjee and Duflo 2008, Murdoch 1995). *Portfolio of the Poor* (Collins and others 2009) found that managing day-to-day cash flow was one of the main three drivers of financial activities of the poor. Transforming irregular income flows into a dependable resource to meet daily needs a central challenge for the poor. Access to formal financial institutions can bring needed reliability

to their financial lives: formal financial institutions take savings and pay out loans in the amount and when they promised, show respect to their clients, and are less likely to demand bribes, making their services more dependable and reliable. This may be as important as improving the livelihood of the poor – and the first may pave the way for the second. Box 1 describes an example how even poor families engage in managing their finance, as documented in *Portfolio of the Poor* (Collins et al. 2009).

Box 1. Household Profile – Hamid and Khadeja, Dhaka, Bangladesh

The story of Hamid and Khadeja is one of 250 "financial diaries" that Collins and her research team recorded in Bangladesh, India, and South Africa as part of their effort to study how the world's poor live on $2 per day. These diaries are a detailed – and to date the only available comprehensive – record of how the poor manage their finances.

Hamid and Khadeja live in a Dhaka slum with their son. Hamid is a reserve motorized rickshaw driver; Khadeja supplements his unpredictable income with earnings as a seamstress. On average the couple earns $70 per month or $0.78 per person per day. Despite their modest income, they have reserves in six different instruments (see table below). During the year the researchers recorded their finances, the family "pushed" $451 of their income into savings, insurance, and loan payments, and "pulled" out $514 of savings, or by taking out a loan or guarding money for others. Their total turnover of $965 was, in fact, larger than their annual income of $840. Although their net worth was negative, the amount was small relative to their total annual income, and hence they could service their debt.

Table. Hamid and Khadeja's Closing Balance Sheet, November 2000

Financial Assets $174.80	*Financial Liabilities $223.34*
Microfinance savings account $16.80	Microfinance loan account $153.34
Savings with a moneyguards $8.00	Private interest-free loan $14.00
Home savings $2.00	Wage advance $10.00
Life insurance $76.00	Savings held for others $20.00
Remittances to home village >$30.00	Shopkeeper credit $16.00
Loans out $40.00	Rent arrears $10.00
Cash in hand $2.00	

Financial net worth –$48.54

The household's balance sheet includes a microfinance loan that Khadeja took out to buy gold—a secure, reliable asset that she could use in the event Hamid could no longer support her. Khadeja felt that she didn't have the self-discipline to save up for the gold on her own, so a microfinance loan was the only way for her to acquire a large enough sum to purchase it. The fact that the loan could be repaid in small weekly payments made it manageable, and being accountable to the microcredit provider meant she would repay, but the interest rate on the loan meant that she was essentially paying to save. Khadeja would likely have been better served by access to a commitment savings product that held her accountable to save in the same way her microfinance loan held her accountable to repay.

Source: Collins and others. 2009.

9. **In summary, financial inclusion has the potential to benefit the poor through an array of channels.** One key benefit is facilitating day-to-day financial transactions through affordable payment systems which are of particular importance due to many poor households relying on remittances from family members. A second key benefit can be managing day-to-day resources through credits and savings to smooth consumption, particularly valuable for poor households with unpredictable – on often only seasonal – incomes. A third benefit is protecting against vul-

nerabilities such as illnesses or unemployment through primary savings or insurance, but also credit and remittances. A final key benefit can be making investments to improve the condition of housing or to enhance the productivity of a very small or micro enterprise through savings or credit are other common potential benefits of financial inclusion. (Center for Financial Inclusion 2009, Collins et al. 2009, Banerjee and Duflo 2007). While informal services may make up for part of these benefits, they may be unreliable, risky, costly, and unsafe. (Roodman 2012; Collins and others 2009).

MIRACLE OR CURSE – WHAT WE KNOW ABOUT THE EFFECTIVENESS OF FINANCIAL INCLUSION INTERVENTIONS

10. **After more than 30 years of being an integral component of the international development agenda, the verdict is still out on the effectiveness of inclusive finance interventions.** The evidence on development outcomes is mixed and partially inconclusive to date. A preliminary review of systematic reviews (SRs) of impact evaluations (IEs) of microfinance have suggest a limited, positive impact of microcredit under some circumstances, a positive but limited impact of micro savings, and an insufficiency of evidence on payments and insurance to draw firm conclusions. These preliminary findings, presented in Box 2, will be deepened and updated as part of the research efforts for this evaluation. See Table 1 for details on SRs reviewed.

11. **Major gaps exist in the literature on the conditions under which microcredit may be beneficial to the poor and on the impact and conditions for impact of micro savings, micropayments and insurance** (with the exception of weather-based insurance for smallholders, which is somewhat better researched). Several of the SRs are critical of the literature for its lack of rigor (including numerous instances of selection bias) and consistency in methodology, and at least two find that less rigor is associated with findings of more positive outcomes.

12. **While this evaluation will not be able to remedy gaps based on lack of rigorous impact evaluation, it can provide a structured basis to refine some of the learning from the literature to understand better, based on World Bank Group experience, what works better** under what circumstances, in what combinations and in what sequences. It is unlikely that the same recipes should prevail for all sub-groups within the financially excluded (whether by gender, location, region or activity), nor that the same combination and sequence of activities apply irrespective of the state of development of the financial system and related country systems. Thus the contextual understanding that emerges from the case studies and portfolio review can add a great deal of qualification and specificity to the learning from the literature.

Box 2. Preliminary Findings from Systematic Reviews of Impact Evaluations of Financial Inclusion

A preliminary analysis of Systematic Reviews (SRs). Looking at a first group of SRs, approved by the International Initiative for Impact Evaluation (3ie), yield the following picture: One of the most comprehensive SRs of evidence (Duvendack et al.) finds benefits to businesses of microcredit but finds "no good evidence" of the benefits at the level of household well-being. A second broad SR (Stewart et al, 2012) finds that microcredit and micro savings can reduce poverty but often do not, and that there are many unanswered questions on the impact of micro-leasing, microcredit and micro-savings on the poor. An SR of microfinance in Africa (Stewart et al., 2010) finds mixed evidence on microfinance -- positive effects on some household outcomes (e.g. nutrition), but negative on others (e.g. education) -- and no benefit for job creation and the potential to increase poverty. It concludes that micro savings is "overall more effective" in reducing poverty. An SR on microfinance to farmers (Nankhuni et al) finds positive impacts on production for some value chains in some contexts, with benefits for consumption and poverty as well. Credit combined with training and technical advice appeared to work better. An SR on social programs in Latin America and the Caribbean (Cole et al.) finds a mixed impact of microcredit. An SR of micro-insurance for smallholder farmers finds mixed results and suggests combining supply and demand-side measures. An SR focusing the impact by gender (Yoong et al.) finds "heterogeneous" but "beneficial" effects of microcredit to women "in terms of schooling, expenditures, assets, height-for-age in children and measures of women's empowerment" although other studies find no impact on women's empowerment or fertility.

Other meta evaluations: An IFC meta-evaluation on job creation (not listed by 3iE) (Paniagua et al., 2012) finds that improving access to microcredit can lead to enterprise expansion in rural settings and that collective loans appear most effective. A second, too new to review, systematic review (Maitrot, et al., 2014) finds a significant positive impact of microfinance on per capita income, but no impact on expenditures. It finds benefits are only short-term and that more rigorous studies of the impact on the poor suggest negative or insignificant outcomes. Major gaps exist in the literature on the conditions under which microcredit may be beneficial to the poor and on the impact and conditions for impact of micro savings, micropayments and insurance (with the exception of weather-based insurance for smallholders). Banerjee (Banerjee 2013) concluded in his recent literature review that taking the body of work together, there appears to be some evidence that as long as the credit is reasonably priced, microcredit leads to business creation and/or some amount of expansion. There is a lack of strong evidence linking this business creation to increases in consumption. There is also no evidence of substantial gains along other dimensions of welfare, such as education and health. High–interest loans, by contrast, are used for different purposes, for example, to deal with some urgent need, a broken vehicle, or just no money for food. A study by Roodman finds that the strengths of microcredit appears not to lie with lifting people out of poverty, but rather in giving the poor more control over their finances. In other words, it is about "helping poor people manage the uncertainty of being poor" (Roodman 2012). A literature review by Cull et al (2014) find that microcredit benefits some businesses, but finds no consistent welfare benefits at the household level.

Lack of rigor in previous evaluations: Adding to the complexity, the literature increasingly points out the weaknesses and flaws of previous research that came up with conclusions that microcredit reduces poverty (Roodman and Morduch 2009). Flaws related to the selection of control groups, self-selection issues or failures to account for displacement effects—that is, the tendency of increased economic activity of one type being associated with reduced economic activity of another type (Bateman 2010). Several of the SRs are critical of the literature for its lack of rigor (including numerous instances of selection bias) and consistency in methodology, and at least two find that less rigor is associated with findings of more positive outcomes.

Sources: Duvendack et al., Stewart et al, 2012, Paniagua et al. 2012, Nankhuni et al , Cole et al., Yoong et al., Banerjee 2013, Maitrot et al. 2014, Roodman and Morduch 2009, Roodman 2012, Bateman 2010

Table 1. Systematic Reviews of Financial Inclusion Interventions

Title Authors (Year)	Types of Studies	Credit	Savings	Payments	Insurance	Other	3IE?
What is the evidence of the impact of microfinance on the well-being of poor people? Duvendack M. et al (2011) EPPI*[7]	Pipeline designs; with/without; before/after; panel; longitudinal	≈					Y
Do Micro-credit, Micro-savings and Micro-leasing Serve as Effective Financial Inclusion Interventions Enabling Poor People, and Especially Women, to Engage in Meaningful Economic Opportunities in Low- and Middle-Income Countries?[8] Stewart R. et al (2012) EPPI*	RCTs (3) QEs, IEs (14)	≈	≈			Ø	Y
*Do Poor People's Access to Formal Banking Services Raise their Income? Rohini P. et all (2012) EPPI**[9]	RCTs, QE, ECs	+	+	Ø		Ø	Y
*What is the impact of microfinance on poor people? A systematic review of evidence From Sub-Saharan Africa Stewart R. et al (2010) EPPI**[10]	Impact studies	≈	+				Y
Meta-Evaluation Of Private Sector Interventions in Agribusiness: Finding Out What Worked in Access to Finance and Farmer/Business Training Nankhuni, F. and Paniagua, G. (2013) IFC[11]	IEs	+				+	Y
Do we know what works? A systematic review of impact evaluations of social programs in Latin America and the Caribbean Bouillon C. P. et al (2007)[12]	IEs	≈				+	Y
The Effectiveness of Index-based Micro-insurance in Helping Smallholders Manage Weather-related Risks Cole S. et al (2012) EPPI*[13]	5 RCTs, 1 QE, 7 EC				≈		Y
The impact of economic resource transfers to women versus men. A systematic review. Yoong J. et al (2012) EPPI*[14]	RCTs, QE, QA	+				≈	Y
Meta-evaluation on job creation effects of private sector interventions. Paniagua G. and Denisova A. (2012) IFC[15]	RCTs, focus groups, IEs	++				≈	N
'What do we know about the impact of microfinance on poverty? A Systematic Review' by Mathilde Rose Louise Maitrot and Miguel Niño-Zarazúa (Brief 2014, UNU-WIDER ReCom) unpublished[16]	NE, QE, RCT	+ ≈					N

Note: 3iE refers to a systematic review that was reviewed and abstracted by the International Institute for Impact Evaluation.
Legend:

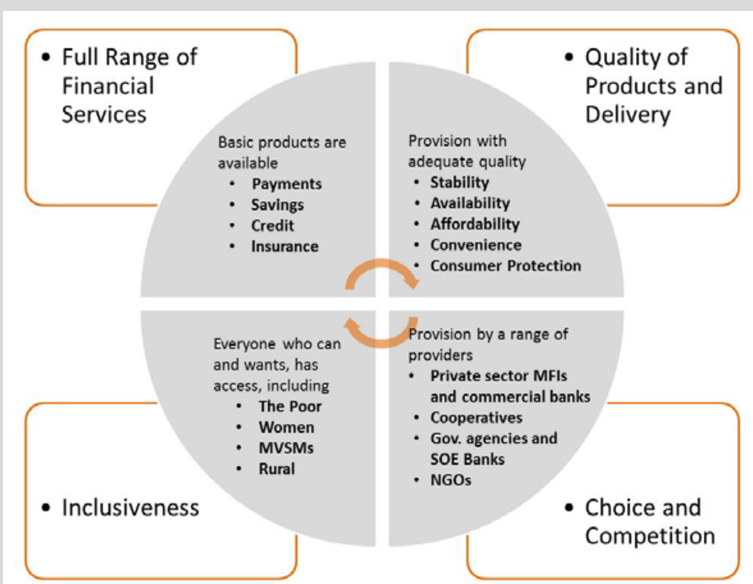
++	Strongly Positive	≈	Mixed Results	-	Mildly Negative
+	Mildly Positive	Ø	No Impact	- -	Strongly Negative
RCT	Randomized	QE	Quasi-experimental	EC	Econometric
NE	Non-experimental	QA	Qualitative	IE	Impact Evaluation (general

TODAY'S MULTIDIMENSIONAL CONCEPT OF FINANCIAL INCLUSION

13. **The modern history of financial inclusion likely started with the foundation of the Grameen Bank in Bangladesh in 1983.** Reports about what the modern world now calls "financial inclusion" date back to 850 B.C. Homer, the ancient Greek epic poet of the Odyssey and Iliad, wrote about *eranos*, a communal meal in which participants contributed a share of the food and in which a person in need could ask each of the others to lend him small sums – a precursor of what developed later into rotating savings and credit associations. However, microfinance as we know it today is likely to have taken shape only 2800 years later, in the 1980s and 1990s. Initially focused on credit, microfinance got traction as a mainstream development tool over these years and received increasingly visibility – culminating in the award of the Nobel Peace Prize to Mohomed Yunis, founder of the Grameen Bank in 2006.

14. **Today, leading policy makers have settled on a broad-based concept of financial inclusion**. Financial inclusion encompasses four basic financial services—savings, payment, credit, and insurance.[17] Secondly, these services should be designed in a manner accessible to traditionally excluded groups, including to the poor, women, minority groups and those difficult to reach, for example, rural dwellers. Thirdly, provision of these services ought to meet adequate levels of quality, that is, should be affordable, available, and stable and follow minimum standards of consumer protection. Fourthly, these services should be provided by a range of institutions to allow for choice and competition. Figure 2 portrays the current concept of financial inclusion, which is based on the recently developed vision of the G20 and the Center for Financial Inclusion (Global Partnership for Financial Inclusion 2012; Center for Financial Inclusion, undated).

Figure 2. The Four Dimensions of Financial Inclusion



Source: Based on Global Partnership for Financial Inclusion 2012.

15. **This evaluation will adopt this broad-based concept – with a special focus on the poor.** The evaluation's primary attention will be on payment, savings, credits and insurance as the key building blocks of the financial inclusion agenda. Assessment criteria for outcomes will, in line with this framework, comprise not only access, but also quality features, and the extent of choice and competition of the provision of financial services. From a demand perspective, the evaluation will also try to capture financial literacy and consumer protection, both of which relate crucially to information failures that may suppress market development. Case studies may elaborate other factors that restrain demand, including aspects of local investment climates that limit profitable opportunities for microenterprises. The evaluation's focus is primarily on the poor, given the Bank Group's poverty reduction goals, and in this respect applies a somewhat narrower concept. In the following chapter, Figure 8 sets out the Theory of Change for Bank Group financial inclusion interventions building precisely on this concept and associated features.

IMPLEMENTATION FACTORS FOR FINANCIAL INCLUSION

16. **To deliver on the promise of implementing this broad-based financial inclusion agenda a range of implementation factors matter.** To ensure financial inclusion also extends to more than just credit, to safeguard banking system stability while allowing MFIs and other financial service providers to prosper, and to enable access also to the poor, women and monitories, several factors will be considered. IEG will factor these implementation issues in when designing the evaluation scope and questions, as outlined in the following paragraphs.

Tailoring the Inclusive Finance Agenda for the Poor

17. **The focus of inclusive finance started out with credit and only gradually embraced other services, despite their usefulness for the poor**. With a growing realization that poor households and small firms need broader financial services than just credit, the original focus on credit provision of the 1970s gradually gave way to a more comprehensive concept that also included savings, and later payments and insurance. This broader view emerged in the late 1990s and gained traction in the early 2000s. The initial focus on credit has simple reasons. Credit is easier to regulate than deposit taking (savings); credit also requires discipline; that is, the client is compelled to repay at regular intervals (while most schemes do not compel savers to make regular deposits). Investors traditionally also used to prefer credit because it is more attractive to many investors and donors "than less capital–intense savings and insurance programs: with the same efforts, an investor looking to disburse large amounts in the least amount of staff time could place $10 million in a lending projects or $1 million in a savings projects" (Roodman 2012).

18. **However, saving is also important for the poor, as it allows them to accumulate the needed sums for investments and for income smoothing and risk mitigation.** "Whatever cred-

it can do, savings can, too. Both can finance investment, pay for consumption, and help families through health crises. This is why poorest households can and want to save" (Roodman 2012, p. 102). Mobilizing local client savings, however, is not cheap, despite the low interest rate many financial institutions pay for small-scale savings (if any at all). This is because of high mobilization and transaction costs. Bulk loans from national or global financial institutions, including from the World Bank Group, are likely cheaper. Paradoxically, it may be cheaper to provide poor people with credit than to take care of their savings. An increased mobilization of savings in the local currency would also make MFIs more impervious to foreign exchange fluctuations, reduce their need for hedging, or reduce the foreign exchange risk passed on to customers. Finally, it may also make financial markets less vulnerable, as international funders tend to withdraw funding to frontier markets during crises.

19. **Similarly, despite the evident value of insurance to poor people, micro-insurance schemes are still a niche product.** In principle, insurance resembles savings in that they both entail regular pay-ins and an occasional payout; however, for insurance, the payout occurs only after a specified event, for example, death, injury, or crop loss. From a regulatory point of view, insurance raises similar prudential concerns as savings, requiring more attention than credit. Additional barriers to wider application of insurance to the poor have to do with "adverse selection" (people who know they are likely to need coverage are more likely to buy insurance), "moral hazard" (insured people may behave in ways that make payouts more likely), complexity of the insurance product, and misunderstanding (why purchase a policy that might never return a cent?) (Roodman 2012). Nonetheless, there is an emerging literature on crop (or "weather" insurance that suggests potential benefits to smallholders.

20. **In this evaluation IEG will look at the role of the World Bank Group in shaping the financial inclusion agenda to the needs of the poor.** An important question is whether the World Bank Group has done enough to ensure that markets develop for the full range of financial services – and not only for credit. It will be particularly interesting to determine if other Bank Group tools (advisory work and AAA, for example) balance the rather heavy emphasis on the lending and investment side on credit[18] and have thus paved the way for a broader inclusive finance agenda that is more aligned with the needs of the poor. Country case studies should be especially useful for shedding light on this alignment. Data about outcomes of inclusive finance interventions are scarce and uneven; this evaluation will not only report on the outcomes of World Bank Group's interventions, but it will also take stock of the current literature with a view to informing the Bank Group's future research agenda.

Regulation, Competition, and Consumer Protection

21. **The growth of microcredit also revealed its weaknesses, pointing at the need to embed financial inclusion in a regulatory framework.** When skewed incentives toward credit provision interact with weak oversight, policy interventions, and local conditions to create a crisis of overindebtedness, the potential to hurt millions of poor customers is high. A series of

repayment crisis demonstrated this: 1999 in Bolivia, 2008, and 2009 in Bosnia, Morocco, Nicaragua, Pakistan and 2010 in India (Andhra Pradesh). To deliver on the promise of financial inclusion, intermediaries need to be regulated and supervised properly, consumer abuse be checked and consumers educated. The environment in which financial services providers operate needs to be conducive to innovation and to new business models while it preserves the stability of the system. As financial inclusion extends increasingly also to saving, the challenge is to find the right balance between ensuring the protection of small savers and keeping the providers adequately capitalized and supervised, which the international standards of the Basel Committee on Banking Supervision try to achieve. (Basel Committee on Banking Supervision 2010; CGAP 2011). Similarly, the standards on anti-money laundering and the financing of terrorism have also adapted requirements for low-risk, small-value accounts (for example, simplified know-your-customer requirements) and transactions that nevertheless still provide for the prevention of financial abuse while preserving the integrity of the financial system. Yet many countries lag in adopting these more inclusive regulatory standards and practices. Also innovative technologies (including mobile payments) give rise to a plethora of new regulatory issues.

22. **Competition among the service providers is essential to induce efficiency gains and innovation**—potentially also benefitting the consumer through lower cost of services (e.g. lower interest rates). In competitive markets where several microfinance institutions contest for market share, lowering interest rates is one of the ways to attract new customers or retain and deepen relationships with existing ones as happened, for example, in Bolivia, where rates dropped from about 40 percent per annum in 1992 to around 15-20 percent in 2004, or in Uganda, where rates dropped from about 40 percent in 2000 to 30 percent in 2004 (CGAP 2013; Roodman 2012).

23. **Furthermore, consumer protection matters, in particular when dealing with those who tend to be less financially literate and less experienced with formal financial services.** Thus it is important that regulators enforce requirements to disclose relevant information in a manner that could be understood by poor clients and that allows them to make informed decisions, prevents unfair and deceptive practices and provides for recourse mechanisms.

24. **Bank Group can act as intellectual leader and convener in the policy and regulatory arena,** influencing international standards, to establish good practice. Its capacity to convene policy makers set an agenda and inform the process through its own research and knowledge products can influence the advancement of the financial inclusion agenda, both of Bank Group's own operations and of others.

25. **IEG will assess the role the World Bank Group has played with regard to fostering sound and regulatory frameworks** and capable institutions for ensuring growth and stability, competition, and consumer protection. [19] This will cover their work through relationships with individual countries, through specific projects as well as their, above mentioned, potential leadership role in international fora. IFC investments and MIGA guarantees also play an important role in this space. Their financial support to bank and nonbank institutions can have demon-

strated effects, show-casing that regulatory frameworks are sufficiently robust and potentially motivating other investors to follow. Similarly, IFC advisory work has the potential to improve the operations of bank and nonbank institutions and hence to leverage, among other things, efficiency gains and improve the financial health of these institutions.

The Importance of Financial Literacy

26. **Most individuals are ill equipped to take advantage of new financial opportunities and responsibilities, underscoring the importance of financial literacy** (OECD/INFE 2012; World Bank 2013). Financial literacy is a combination of awareness and knowledge about financial services and their risks plus the skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve individual well-being (OECD/INFE 2012). To reflect the increased focus on behavior (for example, poor self-control and procrastination) rather than simple knowledge, the term "financial capability" has come into use to extend the concept beyond the narrower idea of "financial literacy." Financial education is also considered as the first line of defense and protection for consumers of financial products as a complement to appropriate regulatory measures. Hence, financial education is identified as a key pillar of financial reform and a complement to regulation of market conduct and consumer protection. This recognition has notably led to the development of a wide range of financial education initiatives by public authorities, regulators, and various other private and civil stakeholders over the past years, with widely differing levels of effectiveness.[20]

27. **In this evaluation IEG will therefore assess the work of the World Bank Group in financial literacy, in particular how far it helped advance the financial inclusion agenda.** The World Bank Group addresses financial literacy through a range of activities, including research, diagnostic reviews, AAA, and advisory work. IFC is active in this area through its Access to Finance and Sustainable Business Advisory Services.

Technology and Mobile Money

28. **Technology has the potential to become a major leverage point in financial inclusion.** Using the infrastructure of mobile phone providers can bring down transaction costs – one of the key impediments for financial inclusion. The mobile money scheme M-PESA[21] in Kenya is often cited regarding the use of mobile phones as a payment instrument, currently serving around 70 percent of Kenyan adults. But there are also other technologies geared toward lowering transaction costs or overcoming other constraints: card and mobile-based technologies, biometric identification for the purpose of facilitating borrower identification, and harnessing "big data" to assess the creditworthiness of potential credit applications are all innovative technological approaches.

29. **New technologies and their associated business models, however, bring new challenges.** Licensing and regulating these new service providers and their new products and services to ensure that prudential regulations and supervisions standards are met, and expanding

deposit insurance to cover savings held on mobile money accounts (or other solutions) are among the most important regulatory challenges these new technologies raise. Furthermore, determining whether the telecom or banking regulator is in charge becomes a prominent issue. If a major player, for example, a telecom provider, is allowed to exert market power unchecked (for example, by drastically limiting access to the telecommunications network and exercising a quasimonopolistic grip on the market), prices of payment services are unlikely to fall because of the lack of competition – hence not sharing the consumer surplus with the customers. For the network operators themselves, network coverage matters, of particular concern in rural areas. Scaling up to be commercially viable is another important success factor; to increase the customer base for mobile money quickly, significant up-front investments are necessary to increase acceptance of a new payment system.

30. **IEG will analyze to what extent the World Bank Group has leveraged technology and mobile banking in advancing the inclusive finance agenda.** The preliminary analysis of World Bank Group activities in this areas revealed that the Bank Group has engaged mainly in telecommunication and mobile financial services (MFS). IFC has worked on a number of mobile money and MFS-related projects through Investment and Advisory Services. In the evaluation IEG will report on the World Bank Group's role, assess in how far it has been a trend-setter with regard to identifying, experimenting with or replicating innovative technological solutions in financial inclusions, and will assess the outcomes.

Gender

31. **Despite the current emphasis of microfinance institutions on women, gender differences are still strong when it comes to financial inclusion.** Microfinance institutions have a tradition of prioritizing women in their lending portfolios because of early experience indicating that women are more reliable in paying back than men in the late 1980s. Today in Bangladesh, for example, among the two largest microcredit providers, about 97 percent of Grameen borrowers and 92 percent of BRAC borrowers are female. Yet there is a persistent gender gap in the developing world (World Bank 2014). According to Findex data, 47 percent of women and 55 percent of men worldwide have an account at a formal financial institution. Looking at only developing countries, the gender gap is wider: among adults living below the $2-a-day poverty line, women are 28 percent less likely than men to have a formal account. In certain regions (South Asia and the Middle East and North Africa) and countries (Guatemala, Jordan, and Pakistan) the financial access gap is significantly higher for women, up to 40 percent. (Demirgüç-Kunt, Klapper, and Singer 2013). Evidence from the literature also points to the consequences of relative financial exclusion, for example, women having to pay higher interest rates, being required to collateralize a higher share of their loan, and having shorter-term loans (Bardasi and others 2007). Women are being financially excluded for a wide array of reasons, including unequal legal rights (Almodovar-Retaguis, Kushnir, and Meiland, undated)., restrictions to own

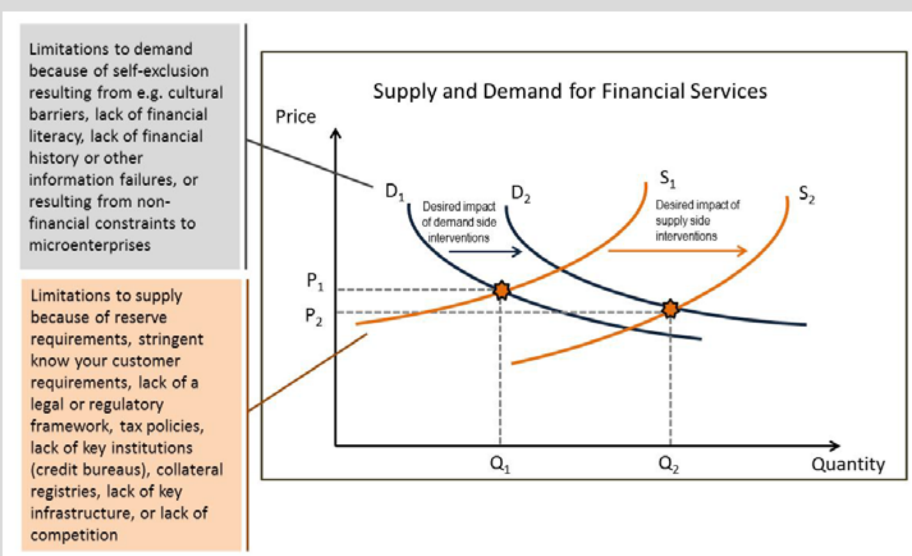
assets, and prominence of customary law over constitutional law which, especially in rural areas, predominantly favors men over women. (Amin, Bin-Humam, and Iqbal, undated). At the same time, gender targeted inclusion initiatives can have unintended consequences, which will also be considered.

32. **IEG will assess how well the World Bank Group has put in place a framework for mainstreaming gender concerns in its financial inclusion agenda.** A preliminary analysis conducted for the preparation of this approach paper revealed that the World Bank Group has addressed gender dimensions of financial inclusion through its lending and technical assistance by increasing access to finance and markets, partnering with financial institutions in several countries, reducing gender-based barriers in the business environment, supporting the development of business skills and financial capability training for women, establishing microfinance programs, and working on building the business case for creating opportunities for women.

RATIONALE FOR THE WORLD BANK GROUP'S INTERVENTIONS

33. **The rationale for World Bank Group support for financial inclusion lies with its ability to improve how markets work by overcoming limitations to market demand and supply so more and better financial services are provided to the poor**. The financially excluded cite specific barriers for not using financial services. For example, banks are too far away or accounts are perceived as too expensive, potential clients lack the necessary documentation or the trust in the bank, and or religious reasons (Demirgüç-Kunt and Klapper 2013). These reasons can in broad brush be grouped into supply-side factors and demand-side factors (Beck and de la Torre 2007).

Figure 3. World Bank Group Interventions and Their Effect on Supply and Demand of Financial Services for the Poor



Source: Adapted from Beck and de la Torre 2007.

34. **The Bank Group's development interventions can be seen as working to shift out the supply and/or demand curves, visualized in Figure 3,** to yield more formal services (to more households and micro and very small enterprises, or MVSEs), potentially at lower prices.[22] Supply-side interventions would seek to deliver more services at any given price and/or reduce the price of services for a given quantity, shifting the supply curve out from S1 to S2. For example, if IFC investments encourage microfinance institutions (MFIs) to expand their supply of microcredit, the supply curve would shift out. If the Bank's policy consultations with a government led to reforms that made lending in small amounts cheaper or more secure, supply could also shift out. Demand side interventions seek to increase the quantity of services demanded at a given price. Consumer financial education and entrepreneurship assistance programs provide potential examples where entrepreneurs or households may, given improved knowledge and opportunity, shift their demand from D1 to D2. Interventions that remove non-financial barriers to successful microentrepreneurship (for example, an improvement in the electricity supply or establishment of macroeconomic stability) could also shift the demand curve for financial services out, although these factors are generally outside the scope of the evaluation. An added benefit of these shifts is the increase in consumer surplus (not shown) to poor households and microentrepreneurs consuming financial services. Interventions that do not shift supply or demand may be seen as lacking a sustainable effect on the market for financial services, and hence on financial inclusion.

WORLD BANK GROUP'S STRATEGY AND OPERATIONS IN INCLUSIVE FINANCE

35. **The World Bank Group's 2007 Financial Sector Strategy set out the agenda and defined a business model for the Bank Group to engage in financial inclusion.** The strategy noted that the development mission of the World Bank Group "leads it to focus on market and institutional infrastructure"—the legal basis, market standards and systems (including payments). Access to finance "for the underserved" is one of two areas of "special attention through well-defined initiatives." CGAP is identified as leading on microfinance, focusing on "sound policies and best practices" with a "an increasing emphasis on the regulatory and market development implications of the use of modern technologies (e-banking, phone-banking)." The strategy makes note of the need to use more systematic diagnostics, including Financial Sector Assessment Programs (FSAPs), Report on the Observance of Standards and Codes (ROSCs), and IFC microdiagnostics. The plan was to do an FSAP stock taking and to develop a set of "consistent diagnostic-based indicators."

36. **The new 2013 Bank Group strategy lays out a role for WBG in financial inclusion.** It mentions the priority of access to finance in poor and fragile and conflict-affected situations (FCS) that "new products are likely to emerge to meet the needs of the 2.5 billion people who still do not have access to formal financial services." It recognizes the central role of the private sector in job creation as a means of poverty alleviation. Microenterprises are mentioned only in

a box on IFC, noting that IFC's sector focus has shifted to increase the program share of micro, small, and medium enterprises (MSMEs). Financial inclusion is, however, not explicitly mentioned.

37. **By contrast, IFC has strongly emphasized financial inclusion (which includes SMEs) and microfinance.** For example, the 2013-15 Roadmap lists as one of five strategic focus areas: "Developing local financial markets through institution-building, the use of innovative financial products and mobilization, focusing on micro, small and medium enterprises." Its Development Goal 3a is "Increase access to financial services for micro/individual clients." In declaring IFC's goals, it emphasizes its "strong focus" on MSMEs and its continued "lead in innovation in microfinance" including in technology, products, and policy "to help financial intermediaries reach a greater number of people in a more cost-effective way by effectively combining Investment Services and Advisory Services." In the 2013-15 Roadmap, IFC replaced the IDG of "helping MSMEs increase their revenues" (an outcome or even an impact) and focused on an existing Development Goal: "increase access to financial services for SMEs clients and micro/individual clients." A major reason was its difficulty in measuring MSME revenues. IFC plans to continue to increase financial inclusion within the context of the World Bank Group approach to responsible financial inclusion through a range of investment, advisory, and Treasury activities, a leading role in the G20 Global Partnership for Financial Inclusion, and leveraging its client network for financial inclusion. IFC's advice and investment in this area often go hand- in-hand. The Multilateral Investment Guarantee Agency's (MIGA) strategy does not enunciate any goals regarding financial inclusion or microfinance, although some of its guarantees have facilitated institutions that provide microfinance among their services.

38. **World Bank Group President Kim lifted financial inclusion to the highest strategic relevance in October 2013 by declaring the World Bank Group's commitment to achieving universal access to financial services by 2020.** The emphasis of this commitment appears to be on extending access to low-income workers and poor families. It remains to be seen how this broad goal will be translated into practice, and the relative emphasis placed on access to a range of financial services versus basic transaction services, such as receiving government payments electronically.

39. **Operationally, the World Bank Group has deployed a wide range of services and products, through the World Bank, IFC, and MIGA.** In a preliminary portfolio review, IEG identified 884 inclusive finance projects committed between FY07 and FY13 (an average of 125 projects per year), with a total commitment value of $9 billion (an average of $1.3 billion per year) (Table 2).[23] IFC accounted for the highest share of financial inclusion projects, both by number of projects (65 percent) and commitment value (49 percent). World Bank's lending accounts for 32 percent of total Bank Group projects and 45 percent of commitments. MIGA's relative share is only three percent of projects and 6 percent of value (measured by gross exposure) (Figure 4).

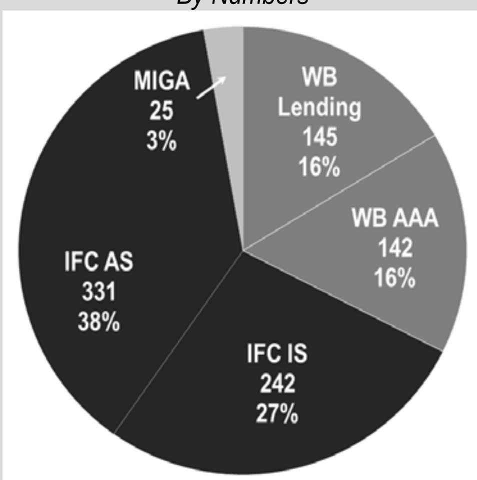
Table 2. Coverage of Evaluation – Inclusive Finance Projects Approved/Committed FY07-FY13

Institutions	All Projects	Financial Inclusion Portfolio	% Financial Inclusion
WB Lending (IBRD/IDA)	2,275	145	6%
WB AAA (ESW/TA)	7,152	142	2%
IFC Investments	2,064	242	12%
IFC Advisory Services	1,611	331	21%
MIGA Guarantees	197	25	13%
Total Number of Projects	13,299	885	7%

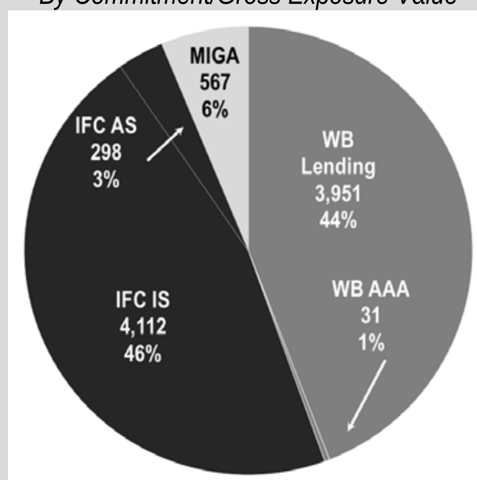
Sources: World Bank and IEG.
Notes: AAA = analytic and advisory activity; All figures are preliminary.

Figure 4. World Bank Group Portfolio in Inclusive Finance – Relative Weight , FY07-13

By Numbers



By Commitment/Gross Exposure Value



Sources: World Bank Group and IEG databases.
Notes: Volume/commitment for each of the institutions is as follows: World Bank Lending = share of Financial Inclusion components to total IBRD+IDA+GRANT amounts identified using sector and thematic flags and their respective percentages; World Bank AAA = total cumulative cost delivered; IFC Investment = total original commitments; IFC Advisory = total funds managed by IFC; MIGA = gross exposure. All figures are preliminary.All figures are preliminary.

40. **The Bank Group's financial inclusion portfolio has been identified in a coordinated manner,** based on clear project coding. Following this preliminary identification process, the list of financial inclusion projects will be submitted to Bank Group management for comment and subsequently finalized. IEG's literature review and interviews with key staff knowledgeable on the World Bank Group's support to financial inclusion revealed the main issues to be considered by the evaluation and informed the portfolio selection criteria (Box 3).

Box 3. Identification of World Bank Group Financial Inclusion Portfolio

For World Bank Lending and AAA, using Business Warehouse, IEG downloaded a list of all Bank Lending projects and analytic and advisory activities (AAA) approved between FY07 and FY13. Given that projects may contain up to five sectors and up to five thematic codes, IEG developed a preliminary list of Financial Inclusion projects by isolating those which contained at least one of such relevant sector codes such as: Payments, Settlements, and Remittance Systems (FG); Microfinance (FH) & MSME-Finance (Expired - FE); Credit Reporting and Secured Transactions (FR); General Finance (FZ) and thematic codes such as: Financial Consumer Protection and Financial Literacy (96); Other Financial Sector Development (98) & Other Financial and PSD (Expired - 44).

For each of these projects, IEG systematically reviewed relevant appraisal documents to identify the project's intention to promote financial inclusion. In addition, IEG performed a series of systematic keyword searches utilizing IEG's components database which includes component descriptions of all WB Investment Lending approved since the late 1990's as well as the DPAD database of Prior Actions for DPLs. Keywords used include, but are not limited to, microfinance, microcredit, access to finance, micro-insurance, mobile, remittance(s), payment(s), deposit(s), and inclusion.

For IFC Investment, using IFC's Management Information System (MIS) extract, IEG filtered projects by commitment dates FY07-13 and also screened and filtered out rights issues, B-loans, and so on. IEG isolated projects which were coded as containing one of the following key sector codes using the variable " Sector Code" (O-AA; O-AC; O-AD; O-AE; O-AI; O-AK; O-CA; O-CB; O-FA; O-HA; O-IH; O-JA; O-JB; O-JC; O-JD; O-LA; O-LB; O-MA; O-MB; O-MC; O-ME; O-MG). The vast majority of these codes are clustered in the Financial Markets Industry Group.

In addition, IEG utilized the "SME Type" flag to exclude those projects which were coded as "SE" or "ME" and that were not flagged as containing a micro component in the recent "Targeted Support to SMEs" evaluation database. Thus, IEG reviewed projects with a relevant tertiary sector code and where the "SME Type" flag was coded as either "MI" for micro or "N/A" for not applicable. For each of the identified projects, IEG systematically reviewed the Board Report (as well as other project documents) to identify language describing the intention to promote financial inclusion.

For IFC Advisory Services, using IFC's Advisory Services Operations Portal (ASOP) project listing and project product listing, IEG filtered projects with approval fiscal years between FY07-FY13. Given that projects may contain one or more products, IEG developed a preliminary list of Financial Inclusion projects by isolating those which contained at least one of such relevant products (A2F-Other; Agribusiness Finance; Business Regulation; Collateral Registries/Secured Transactions; Credit Bureaus; Discontinued Product- Other Payment Systems and Remittances; Farmer and SME Training; GEM Access to Finance; Housing Finance; Insurance; Leasing; Microfinance; Retail Payments and Mobile Banking; SBA-Other; SME Banking; Sustainable and Inclusive Investing; Trade Finance).

IEG also performed a series of systematic keyword searches utilizing ASOP memo listing fields such as PDO, project description, and strategic relevance. In addition, IEG included projects that were identified as containing a micro component in the recent "Targeted Support to SMEs" evaluation database. Keywords used include: microfinance, microcredit, access to finance, micro-insurance, mobile, remittance(s), payment(s), deposit(s), inclusion, etc.

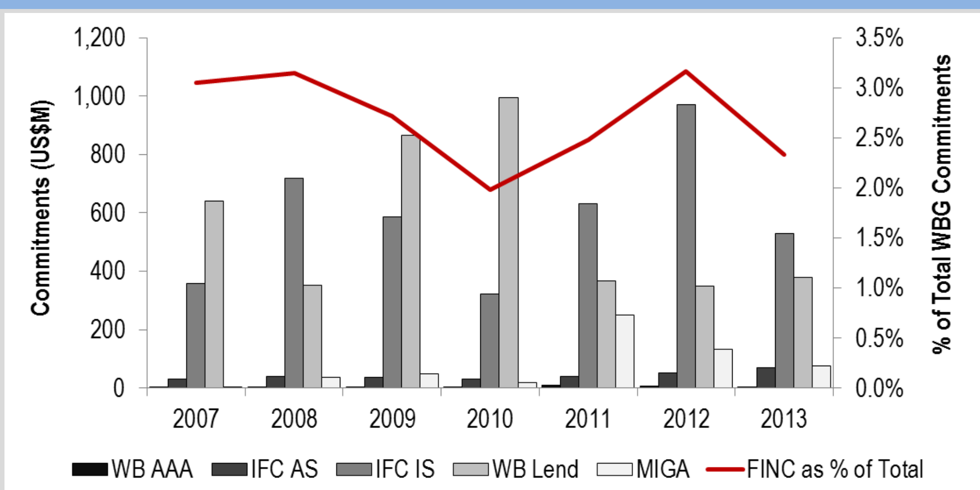
For MIGA, using MIGA's operations portal, IEG retrieved a list of all projects for the period FY07-FY13. Although projects maybe composed of one or more contracts of guarantee that may be issued over time, IEG defines projects as the collection of contracts of guarantee under one project identification, catalogued by the original fiscal year of issuance. Thus, projects with multiple guarantees count as one project in the database, and project amounts reflect the sum of all guaranteed amounts for each project. For the purposes of this evaluation, this includes projects that received MIGA support for the first time between FY07 and FY13 or projects that received MIGA support for the first time during the evaluation's FY07-13 scope (this includes those projects that had received MIGA support in the years prior to the evaluation's scope). To determine which projects would be relevant to the evaluation, IEG began by reviewing each project's description via the Project Brief, available on MIGA's website and identified projects with language within these project briefs that describes the project's intention to promote financial inclusion.

Source: IEG.

41. **Throughout the evaluation period, financial inclusion projects, as defined here,**[24] **accounted for approximately 3 percent of total World Bank Group commitments** (Figure 5). Again, for IFC, financial inclusion commitments represented the largest share of its portfolio with 7 percent of IFC total investment commitments, for MIGA 4 percent of total gross exposure value issued, and for the World Bank 2 percent of its total lending commitments. MIGA's financial inclusion gross exposure, however, is driven largely by two master contracts with the German-based ProCredit Holding Group, through 19 guarantees in 16 projects, for a total of $287 million. Excluding these master contracts, MIGA's financial inclusion gross exposure would represent just 2 percent of the institution's total gross exposure for the period.[25]

42. **World Bank commitments to financial inclusion exhibited a marked increase during FY09 and FY10, likely in response to the global economic crisis.** However, despite the fact that World Bank lending commitments for financial inclusion were largest in absolute terms in 2010, their relative share in its portfolio was the lowest, with almost 2 percent of total commitments. By contrast, IFC's investment portfolio in inclusive finance contracted in the aftermath of the crisis by 55 percent, from $719 million in 2008 to $321 million in 2010; this potentially reflects the limited opportunities for profitable private financial sector investment during this period. Beginning in 2011, IFC commitments nearly doubled in 2011 and grew by an additional fifty percent in 2012 as international financial markets stabilized, although the rest of the financial inclusion and overall portfolios decreased in terms of commitments.

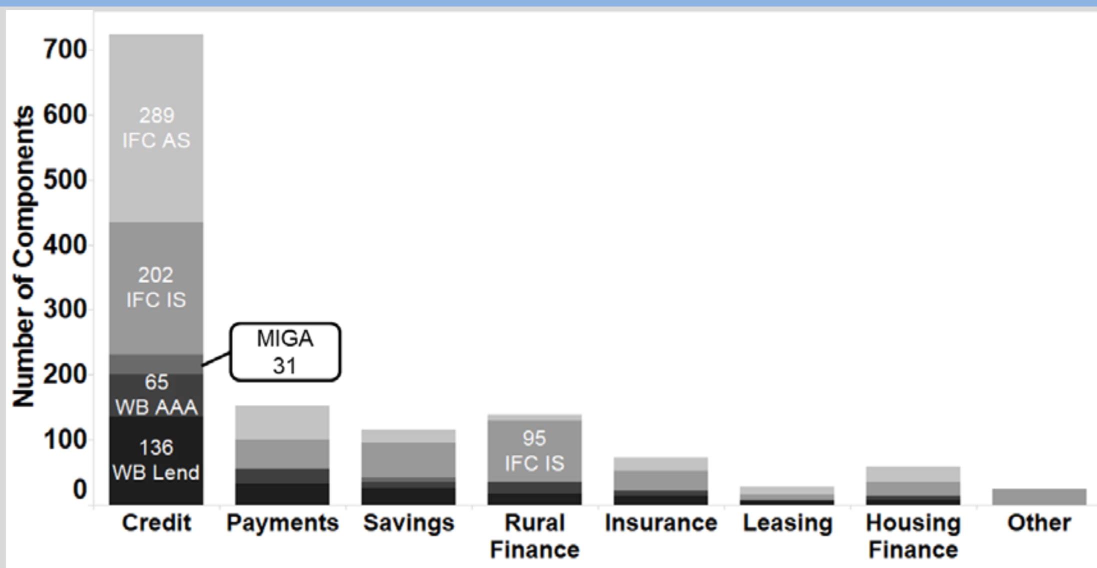
Figure 5. World Bank Group Portfolio Supporting Inclusive Finance, Trend FY07-13



Sources: World Bank Group and IEG databases.
Note: All figures are preliminary.

43. **Most World Bank Group activities are linked to the provision of credit** (Figure 6). This focus is even more pronounced when accounting for rural and housing finance, which typically are linked to the provision of credit as well. Other important areas emerge, led by payments, savings, and insurance. Financial inclusion historically emphasized credit. Only during the last 5-10 years did the concept broaden to include other services, that is, payments, savings, and insurance. The trend in the World Bank Group portfolio can be seen in this context (see Section "Implementation Factors for Financial Inclusion").

Figure 6. World Bank Group Portfolio by Type of Financial Service Supported



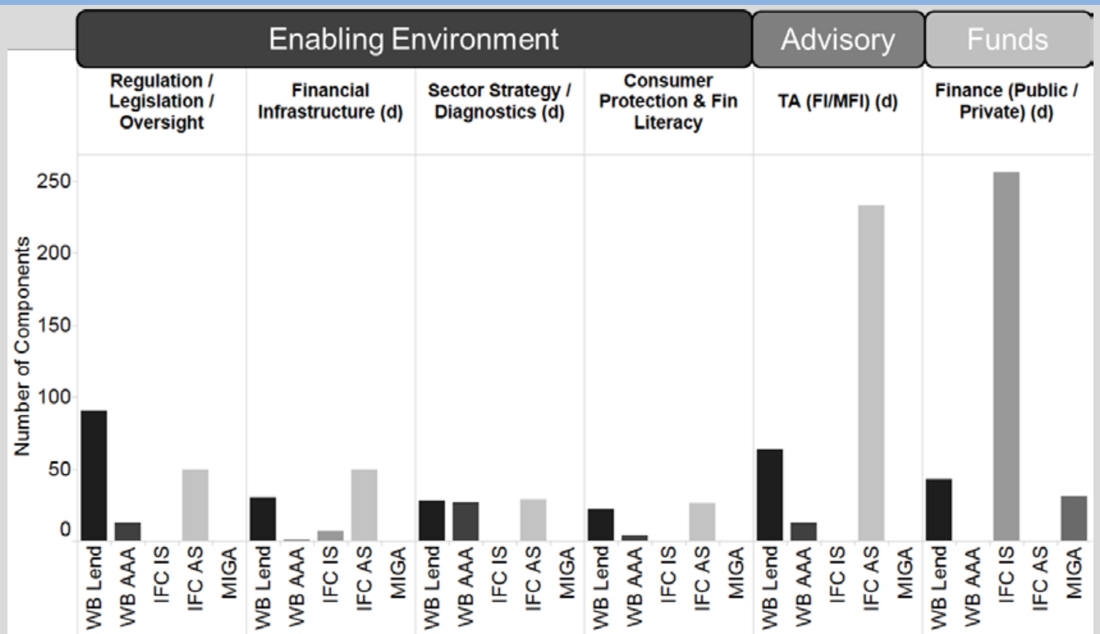
Sources: World Bank Group and IEG databases.
Note: All figures are preliminary.

44. **IFC investment focuses almost exclusively on funding, that is, channeling money to those bank and nonbank institutions that provide financial service to the bottom of the pyramid** (Figure 7). IFC does this either by investing in holding companies that then invest in these bank and nonbank institutions or by investing in them (or lending to them) directly. Meanwhile, IFC Advisory Services play an important role by helping strengthen financial institutions through technical assistance and capacity building. At a broader level, IFC Advisory Services also provide a range of support in the areas of law and regulations, financial literacy, and financial infrastructure. The World Bank is engaged in a diversified set of activities, ranging from creating an enabling environment to advising governments and firms to providing funds.

45. **Because the analytic and advisory activity (AAA) work of the World Bank is neither coded nor evaluated in parallel to its lending or to IFC work, it requires special handling.** At the approach paper stage, the team has been able to identify some 140 AAA works of potential relevance to financial inclusion. However, closer evaluation suggests that many of them will not meet IEG's selection criteria for the financial inclusion portfolio. Classifying and coding these

AAA works is a time-consuming process because of their lack of clear coding and difficulty identifying key documentation; it will be completed during the evaluation period. One question is how to treat "public goods" -- knowledge and analytic products such as FSAPs, which are certainly relevant to financial inclusion but do not always treat it explicitly. In these cases, only those projects with explicit treatment of financial inclusion will be included in the portfolio. However, in country case studies, broader work that had a clear relation to country financial inclusion strategy or to specific elements of the portfolio will be covered. For more detailed results of the preliminary portfolio review, see attachment B.

Figure 7. World Bank Group Support toward Enabling Environment, Advisory, and Funding



Source: IEG portfolio review.
Note: Projects may contain one or more components. All figures are preliminary

Purpose, Objectives, and Audience

46. **In this evaluation, the Independent Evaluation Group (IEG) will assess how well the World Bank Group has supported countries in advancing their financial inclusion agendas** from FY08 to FY13 with a view to informing the Bank Group in its quest to reach the Universal Financial Inclusion Goal by 2020.

47. **The primary audience of this evaluation is the World Bank Group Boards of Directors and Bank Group management and staff, but it is also meant to address the broader development community, including policy makers, donors and the civil society.** Through this evaluation IEG intends to support World Bank Group management in its quest to leverage synergies

across the various units dealing with financial issues. In particular, the new Global Practice Group on Finance and Markets and IFC's Financial Institutions Group will be a critical target audience. Given the reorganizations of both the Bank and IFC, the opportunity for strategic input is ripe. Given that financial inclusion is high on the international development agenda – and likely to gain more importance in the post-2015 development agenda – this evaluation also intends to inform leaders as well as authorities and agencies dealing specifically with inclusive finance programs. Last but not least, this evaluation addresses civil society organizations and civil society at large, as, in particular, the poor members of the latter are the primary beneficiaries of the financial inclusion agenda.

48. **IEG will address both learning and accountability objectives.** The accountability aspects of the study will look at how fully World Bank Group projects achieved their stated objective—a potentially valuable input to adjusting and potentially scaling up Bank Group support to financial inclusion in its pursuit of its Universal Financial Access Goal by 2020. Financial inclusion has, at least indirectly, been addressed by several previous IEG evaluations; for lessons from these studies, see Box 4 along with key findings from special reviews of CGAP.

Box 4. What Have We learned about Financial Inclusion from Earlier IEG Evaluations?

In 2011, IEG examined microfinance (primarily credit) in the context of the poverty focus of IFC's work. On investments, the evaluation found that "effective interventions will involve complementary and well-coordinated action" that addresses "both financial and non-financial constraints to growth, including a wide portfolio of financial products and services." For advisory, there was a need to establish "a careful balance between sectorwide approaches… and approaches that provide direct support for access to finance for households and firms." This would require not only coordination between investment and advisory, but also coordination with the World Bank and other donors. To improve poverty impact, IFC should "re-examine the stakeholder framework" and clarify the "causal pathways, transmission channels, and underlying assumptions." (IEG 2011)

In 2008, IEG looked at IFC's financing of MSMEs through financial intermediaries in frontier countries. It found seven "success drivers" for projects dealing with microfinance institutions: (i) sponsor and management quality; (ii) supporting advisory services; (iii) MFI operational standard; (iv) MFI institutional equity (at initiation) and governance; (v) MFI transparency; (vi) IFC work quality; and (vii) the existence of a specialized and supportive regulatory regime (and associated regulatory supervision capacity), for MFIs. It found that IFC missed opportunities, pointing to: (i) the importance of providing local currency loans; (ii) the important role of a savings deposit base as a sustainable source of funds; (iii) poor households' and MSME's need for other banking services (remittances, savings, etc.); and (iv) the key role of specialized and supportive regulatory regimes for success. (IEG 2008)

In 2006, IEG evaluated World Bank lines of credit, finding that they generally had poor outcomes and frequent cancellations. Better outcomes for lines of credit were found to be associated with (i) stable macroeconomic conditions; (ii) stronger financial sectors, including satisfactory competition, legal and regulatory and tax regimes, and limited state ownership; (iii) clear eligibility criteria for participating financial intermediaries; and (iv) use of only private sector financial intermediaries. (IEG 2006).

IEG's 2007 evaluation of the World Bank Group's response to the global economic crisis found that few Financial Intermediary Loans (FILs) during the crisis were able to disburse rapidly, although loans to experienced institutions, repeat loans, and loans to exporters did better. Some FILs, intermediated by large government-owned banks, missed opportunities for deepening the private banking system. "… Continuous engagement with a country's financial sector … can provide the basis for quick intervention. … The absence … can seriously limit the effective design of operations at a time when new diagnostic work is not possible." (IEG 2007)"

In 2013, IEG evaluated targeted support to SMEs. It noted that a weak business environment "can shift activity away from formal firms toward smaller, informal microenterprises." It found that "in low-income countries, more workers are employed by micro and informal enterprises than by SMEs." IFC's definition for microenterprise overlaps with many definition of SME. Some of the broad findings of the SME study may apply to the current evaluation, namely that a critical challenge is to better root many activities now undertaken in a clear understanding of the characteristics and dynamics of targeted enterprises, their role in the broader economy, and their actual and potential contribution to jobs, growth, and shared prosperity; and to formulate clear strategies that connect interventions to intended outcomes, accompanied by measurement systems that provide evidence of results. (IEG 2014)

The Consultative Group to Assist the Poor (CGAP), a "consortium of public and private agencies whose secretariat is located in the World Bank", a thought leader in the area of financial inclusion and an important partner for several leading donors, has not been rigorously evaluated. A 2008 IEG "review" found that while its achievements were "impressive", "weaknesses in CGAP's monitoring and reporting system" made it hard to evaluate its contribution to alleviating poverty. While praising its collaboration with WBG, it cautioned against too close a relationship "which could generate perceptions of unfairness and inequity on the part of other CGAP members." The 2012 Universalia "External Mid-Term Review" of CGAP, also notes its major achievements and apparent impact, but suggests a need for a more rigorous focus and framework by which to evaluate its impact: ""[CGAP should] articulate the theory of change of the overall program…; review and revise…the results framework to ensure that it reflects the program logic [and] develop a formal [M&E] process and indicators to guide an overall assessment of CGAP's planned/actual cumulative performance over time."

Sources: IEG 2006, 2007, 2008(a), 2008 (b), 2011, and 2014 and Universalia 2012.

Evaluation Issues, Questions, and Scope

Conceptual Framework and Evaluation Results Chain

49. **The above presented broad-based concept of financial inclusion together with the rationale for the World Bank Group's engagement forms the basis for this evaluation.** Subsequently, financial inclusion refers to the full range of services (payments, savings, credit and insurance), to specific quality features of delivery (for example, stability and affordability), inclusiveness (with special focus on the poor) and choice (offer of service by a range of institutions) (Figure 2). The World Bank Group supports financial inclusion to improve how markets work by overcoming limitations to market demand and supply so more and better financial services are provided to the poor. (Figure 3).

50. **Figure 8 below brings these two concepts together, reflecting the implementation issues described above and embedding them into the theory of change (or results chain) that this evaluation will use.** It links the various World Bank Group interventions with outputs and intended outcomes (embodying the underlying theory of change connecting them). In summary, the World Bank Group deploys its instruments, including lending, investment services, guarantees, advisory services, technical assistance, and analytic work to put in place the enabling environment (see top box under outputs) for an inclusive finance agenda, as well as to support the operation of bank and nonbank institutions through advisory services, investments,

and lines of credit (see bottom box under outputs). These outputs are reflections of the above raised implementation issues, that is regulation, competition, financial literacy, and financial infrastructure, such as mobile payment systems. Jointly these outputs are anticipated to improve the way markets work – by shifting supply and demand – and provide financial services to the poor and MVSEs. Immediate outcomes will hence be assessed by the extent of which markets provide more *and better* payment, saving, credit and insurance services to the poor and MVSEs, taking into account gender issues. IEG's evaluation is likely to shed the most light on this level of outcomes. Such improved service provision should ultimately improve the livelihoods of poor people and strengthen shared prosperity (final outcomes) both directly and due to the role of financial inclusion as an enabler of other development outcomes. All of this is supported by the Bank Group's role as convener and leader in financial inclusion, contributing to the knowledge agenda as well as joining policy makers in international fora to advance the financial inclusion agenda.

Figure 8. Theory of Change for World Bank Group Financial Inclusion Interventions

Source: IEG.
Note: L/C = Lines of Credit.

EVALUATION QUESTIONS

51. **The overarching question that IEG seeks to answer in this evaluation is:** ***Has the World Bank Group been relevant, effective and efficient in creating better functioning markets that provide improved access to and quality of financial services to the poor and microenterprises on a sustainable basis, globally and at the country level?*** This overarching question will be addressed with a view to gaining an understanding how successful inclusive finance interventions can be replicated in different country contexts. For more details on the methodology, see attachment C.

Relevance

1. Has the World Bank Group's support for inclusive finance been relevant to client countries and their poor populations' priority needs, conditions and readiness for reform?
    a. Given the body of evidence from the literature and increasing number of impact evaluations, is there a sound economic rationale for World Bank Group to be active in financial inclusion?
    b. What are IFC's, MIGA's, and World Bank's diagnostic and support instruments for inclusive finance and how do they relate to each institution's corporate strategy? How do they differ from each other, and are they consistent and complementary?
    c. How strategically did the World Bank Group allocate its resources on financial inclusion interventions to countries?
    d. How well did systemic interventions aiming to improve the enabling environment for financial inclusion address client countries' constraints and priorities?
    e. How well did interventions that provided funding for the supply of financial services for the poor and underserved reflect the country's enabling environment/systemic factors?

Did World Bank Groups interventions take into account the specific constraints and needs of the poor and other excluded groups, such as women or the rural poor?

Effectiveness

2. Has the World Bank Group been effective in its systemic interventions to create an enabling environment?
    a. To what extent have projects and project components that targeted the enabling environment for inclusive finance achieved their stated objectives? Have such interventions effectively addressed deficiencies in regulatory and oversight regimes; improved consumer protection regulations and enforcement thereof; contributed to enhancing the financial infrastructure (credit bureaus, collateral registers, and so forth); and enabled adequate competition?

b. What can be learned from cases where the implementation of systemic interventions was particularly successful or failed? How do these lessons relate to the conclusions of the literature and the existing body of impact evaluations?

3. Has the World Bank Group been effective in funding institutions that provide financial services to the poor and microenterprises, including funding through intermediaries or apex institutions? Has the World Bank Group been effective in advising these institutions in improving their performance?

   a. To what extent has such financial support through lines of credit, investments and/or guarantees helped increase the supply of financial services to the poor and microenterprises?
   b. To what extent was World Bank Group advice effective in improving the performance of financial service providers? Was such advice complementary to investment / lending operations and in appropriate sequence?
   c. Is there evidence that World Bank Group interventions contributed to improved access to payments, savings, credit, and insurance for the poor and for microenterprises? Has such access been of the needed quality and affordability, adequately protected consumers from deception or exploitation, and been embedded in a stable financial system? And has such access led to increase in use?
   d. Is there evidence that the increased supply of financial services supported poor household to improve their livelihood, increase and/or smoothed their income and consumption, and/or allowed risk mitigation?
   e. Is there evidence that the increased supply of microfinance services supported microenterprises to grow and increase their employment, sales, investment, or productivity?

Efficiency

4. Are World Bank Group interventions in inclusive finance efficient instruments, from both a program and institutional perspective?

   a. To what extent has support to inclusive finance reached the poor and microenterprises at a reasonable cost? Do some approaches exhibit greater cost-efficiency than others?
   b. What is the utilization rate of support provided (for example, lines of credit, guarantees, and other instruments for inclusive finance)?
   c. Are the activities profitable and sustainable? What is the profitability of IFC and mainstream MIGA activities? Are World Bank and all subsidized World Bank Group activities meeting the target rate of return? After World Bank Group interventions, is there an enduring benefit in correcting market failure?

Work Quality and Coordination - Working as One World Bank Group

5. Is the World Bank Group effectively managing factors within its control?
    a. How well did country strategies reflect the World Bank Group's research and knowledge about inclusive finance?
    b. Is the World Bank Group meeting its established work quality standards in preparation, implementation, and supervision? How does performance vary by country conditions and the presence or absence of complementary or prior interventions?
    c. Are World Bank Group monitoring and reporting standards related to financial inclusion interventions adequate for accountability and learning? Is Bank Group management using the resulting data to improve performance and outcomes?
    d. Are the three World Bank Group institutions leveraging synergies through adequate coordination and sequencing of interventions? To what extent have complementary interventions contributed to the effectiveness of assistance? Has the presence or absence of multiple activities and/or sequenced activities influenced outcomes?
    e. What can we learn from successful or failed World Bank Group coordination across the various units contributing to the inclusive finance agenda? Which mechanisms of coordination (shared strategy, shared projects, formal or informal communication, etc.) are most and least effective?

EVALUATION SCOPE

52. **This evaluation will cover World Bank Group inclusive finance interventions during the FY07–13 period.** It will cover IFC investments and advisory services; MIGA guarantees; and World Bank guarantees, lending and nonlending (AAA, including nonlending technical assistance, economic and sector work, and reimbursable technical assistance). For analyzing trends in operations (in terms of volume, number of projects) and design features, this study will focus on projects committed, approved, or issued during FY07-13. For the assessment of results, IEG will focus on projects that *exited* during FY07-13. That includes projects that were "closed" (for World Bank) or reached "operational maturity" (for IFC and MIGA) during FY07-13 and were subsequently evaluated (at the project level), hence including projects that were approved during FY07-13 and were already evaluated, but also projects that were approved *prior* to FY07, but evaluated during FY07-13. This provides a considerably longer history, with some evaluated projects having originated as early as 1999. "Ongoing" projects, that is, those approved FY07-13, that have not yet reached closure/operational maturity will be included mainly for the purpose of answering questions of design, relevance, and general trends (and, of course, in the context of case studies as part of the relevant program and context). In country case studies, ongoing projects will be considered to assess as to whether the Bank Group program addresses strategic priorities at the country level and is hence relevant. Table 3 provides an overview of the World

Bank Group projects and interventions covered. The activities of the World Bank's Development Economics Department and of CGAP will not specifically be evaluated, but the team will be attuned to apparent gaps in knowledge, research and advocacy evidenced in the course of the evaluation, and will note these in the final report and look for evidence of relevance or influence on operations in the case studies.

53. **The focus of this evaluation will be on payments, savings, credit, and insurance.** These four basic services are the key building blocks of today's financial inclusion agenda and will hence receive primary attention. Neighboring concepts of agriculture finance or risk mitigation for the poor through sovereign disaster risk policies will not be subjects of this evaluation, as they are either driven by different context factors, or only indirectly affect the poor, or are mainly geared toward the middle class. Note also that in the area of housing finance, most "affordable mortgage" activities are not oriented to the base of the pyramid or even the bottom 40 percent, so the relevant portfolio of "micro-mortgage" support is tiny.

Table 2. Coverage of Evaluated Material – Inclusive Finance Projects Approved FY07-FY13

Institutions	Financial Inclusion Portfolio	Evaluated Financial Inclusion Projects	% with Evaluation
WB Lending (IBRD/IDA)	213	95	45%
WB AAA (ESW/TA)	142	0	0%
IFC Investments	274	57	21%
IFC Advisory Services	339	83	24%
MIGA Guarantees	25	0	0%
Total Number of Projects	993	235	24%

Sources: World Bank and IEG.
Notes: An additional 108 projects evaluated between FY07-FY13 were identified for the purpose of this evaluation though they were approved prior to FY07. AAA = analytic and advisory activity; ESW = economic and sector work; TA = technical assistance. All figures are preliminary.

54. **Broad-based macroeconomic or financial sector interventions that only indirectly affect the inclusive finance agenda do not fall within the scope of the evaluation.** The success of financial inclusion interventions hinges on a wide variety of factors that pertain to macroeconomic stability, banking, securities, and insurance market development in general, including the depth and width of these markets and factors of governance and transparency. These factors are acknowledged as important, but interventions targeting these other factors will not be assessed per se. In addition, factors outside the financial sector may influence opportunities for the poor to make use of financial services to improve their well-being. The primary focus of this evaluation are interventions aimed at strengthening the enabling environment and/or the provision of financial services to the bottom 40 percent, through funding support, advisory work or other means.

Evaluation Design

55. **The evaluation questions will be answered through a combination of the following methodologies:** (i) a comprehensive literature review, (ii) a review of policy and strategy documents at country and corporation levels, (iii) a portfolio review of World Bank Group projects and activities, and (iv) 15 country reviews of which 10 will be desk reviews based on portfolio data and Country Assistance Strategy Completion Report Reviews, and 5 purposively selected country case studies including a field mission. The approach will be nonexperimental, combine qualitative and quantitative methods and draw on external and internal research data, such as the World Bank's Enterprise Surveys, household survey data where financial inclusion variables have been included and the data of Microfinance Information Exchange (MIX). MIX is a nonprofit organization that facilitates collection and exchange of public data designed for microfinance practitioners, reporting on some 1,650 MFIs (in 2011). Using the MIX data IEG will better understand the practices and performance of microfinance institutions, as well as observe their response to the global financial crisis and longer-term trends over time.

56. **IEG will conduct a portfolio analysis to identify and categorize the characteristics, objectives, and components of the activities covered by this evaluation and to analyze their results.** World Bank Group activities will be integrated into a database to assess their components and objectives for strategic relevance and complementarity. This database will represent the basis for the subsequent analysis of results achievement, when the various success indicators from IEG microevaluations will be added to these data. Complementary data of the World Bank Group's own monitoring and evaluation systems will be used as well, with the understanding that these have not been subject to an independent IEG validation.[26]

57. **Relying primarily on the available microevaluation data, IEG will analyze results achievement at project closure for World Bank lending projects and at the point of operational maturity for IFC and MIGA projects.** For World Bank projects, Implementation Completion and Results Reports and their IEG reviews will be the primary source of results information, complemented by Project Performance Assessment Reports and conducted for about one-quarter of projects two years after their closure. For IFC Investment Services and MIGA, this evaluation will largely rely on Extended Project Supervision Reports, Project Evaluation Summaries, and Project Evaluation Reports conducted at operational maturity, usually about two years after financial closure. To the extent monitoring data are available for IFC's investments throughout the entire lifetime of the investment; these will be used to extend the assessment of sustainability beyond maturity in the context of mission country case studies.

58. **At the country-level the coherence of the solutions developed by the WBG will be covered through country reviews.** IEG will carry out these studies to identify drivers of success; assess nonlending and advisory work, including AAA that might have provided diagnostics of the country's financial sector and its inclusiveness or barriers to inclusiveness; and address is-

sues of complementarity, sequencing, and synergies. A key question as the Bank Group moves to a new, more integrated 'solutions bank' model (recognizing that this level of integration was not the prevailing model during the evaluation period) is the extent to which critical constraints and opportunities were identified through regional, country-level or subnational diagnostics, the extent to which activities were aligned to an identified country results framework and to the comparative advantage of respective World Bank Group institutions, and the extent to which performance information was used for mid-course correction and learning. Country Assistance Strategies and their Completion Report Reviews (CASCRs and CASCRRs) will be used to assess the question whether the Bank Group has mobilized the best solutions and personnel in combinations appropriate to country needs.

59. **To this end, IEG will conduct 15 desk-based reviews of which five will be developed into in-depth country case studies involving field missions**. Desk reviews will be based on available portfolio data, project records and micro evaluation evidence. IEG's missions to five of these countries will allow IEG to systematically assess additional country specific drivers, gather information on effects to the beneficiaries (Box 5), and assess the sustainability of interventions in the longer term, that is, beyond project closure.

Box 5. Beneficiary Analysis in Field-based Country Case Studies

Field-based country case studies will provide an opportunity to assess development outcomes at the beneficiary level. The Theory of Change (Figure 8) defines as immediate outcomes the access to financial services, including for the poor and MVSEs, meeting quality criteria of availability, stability, convenience etc. Final outcomes are welfare effects, such as income smoothing, investments in health and education, or productive investments. The beneficiary analysis will attempt to provide insight into what drives both of these, depending on the availability of data. IEG will make use of internal and external data that report on financial inclusion and associated welfare effects, such as national household survey data where available. For the beneficiary analysis conducted for the five field based case studies, the primarily focus will be on qualitative methods (as an attempt to undertake a statistically representative assessment in only five countries would have limited inferential value). Focus groups and a series of structured interviews will be will be utilized parallel to more formal, rigorous approaches to data collection and analysis.

In the context of beneficiary analysis, IEG also plans to use the data generated by the World Bank's Enterprise Survey between 2008 and 2013. During this time the World Bank conducted 17 comparable surveys of informal and microenterprises, reflecting the experience of 4,246 of these enterprises in Africa and Latin America. IEG will utilize these data to better understand the practices and constraints of MVSEs, their sources of finance, explanatory factors for their access to finance, and the relationship between access to finance and firm-level growth of sales and employment, controlling for other internal and external explanatory factors..

Source: IEG.

60. **The selection of country cases will first be criteria-driven with subsequent purposive selection of field-based cases**. Given the above rationale, country case studies can only be a fruitful source of knowledge, if they address countries with a certain minimum number of Bank Group financial inclusion interventions. This does not imply that interventions in countries with overall lower activity levels are less important. Indeed they may yield equal insight and provide

opportunities to learn from innovative approaches; however, as all projects will be analyzed at the portfolio level, the evaluation will give them due consideration. Selection of the larger group of 15 desk review countries follows a criteria-based sampling methodology. Applying these criteria to all 116 client countries (in financial inclusion), yields a list of 13 eligible countries. To achieve a better regional balance, one additional country was added for the MNA (Lebanon) and ECA regions (Kyrgyz Republic), bringing the total number of desk reviews to 15 countries with a significant financial inclusion portfolio. (Table 4). In total, country cases will cover 300 financial inclusion interventions of which 88 have been subject to project level evaluations already. Selection criteria were:

(i.) Presence of at least three of the total five types of financial inclusion interventions (lending, investments, advisory, guarantees, AAA/technical assistance/economic and sector work);
(ii.) Availability of at least one project level evaluation report for each of these types of interventions (for example ICRRs, XPSRs, PCRs, or PERs);
(iii.) Complementary nature of interventions, that is, work that aims at improving the enabling environment and those funding micro finance institutions;
(iv.) Geographic and regional considerations;
(v.) Income level considerations, and
(vi.) Maturity of the countries' enabling environment for financial inclusion.

Table 4. Case Study Countries

Name	Region	Income Level (2013)	WB Lending	WB AAA	IFC Investment	IFC Advisory	MIGA Guarantee	Total
Ghana	AFR	LM	2 (1)	0	3 (2)	5 (3)	0	10 (6)
Kenya	AFR	L	3 (2)	2	3 (0)	6 (1)	0	14 (3)
Tanzania	AFR	L	3 (1)	2	4 (1)	7 (4)	0	16 (6)
China	EAP	UM	3 (3)	1	15 (1)	15 (3)	0	34 (7)
Indonesia	EAP	LM	5 (3)	1	7 (1)	8 (3)	0	21 (7)
Azerbaijan	ECA	UM	2 (1)	0	7 (2)	5 (3)	0	14 (6)
Kyrgyz Rep.	ECA	L	3 (2)	3	5 (0)	4 (1)	0	15 (3)
Brazil	LCR	UM	9 (4)	2	11 (1)	4 (1)	0	26 (6)
Colombia	LCR	UM	2 (2)	0	11 (5)	4 (2)	1	18 (9)
Mexico	LCR	UM	11 (5)	0	8 (1)	4 (2)	0	23 (8)
Lebanon	MNA	UM	1 (1)	1	1 (0)	4 (2)	0	7 (3)
Morocco	MNA	LM	5 (3)	0	3 (1)	7 (3)	0	15 (7)
Afghanistan	SAR	L	3 (1)	2	3 (1)	7 (2)	2	17 (4)
India	SAR	LM	13 (2)	4	20 (2)	38 (7)	0	75 (11)
Pakistan	SAR	LM	3 (1)	2	3 (1)	8 (4)	3	19 (6)
Total Number of Projects			68 (32)	20	104 (19)	126 (41)	6	324 (92)

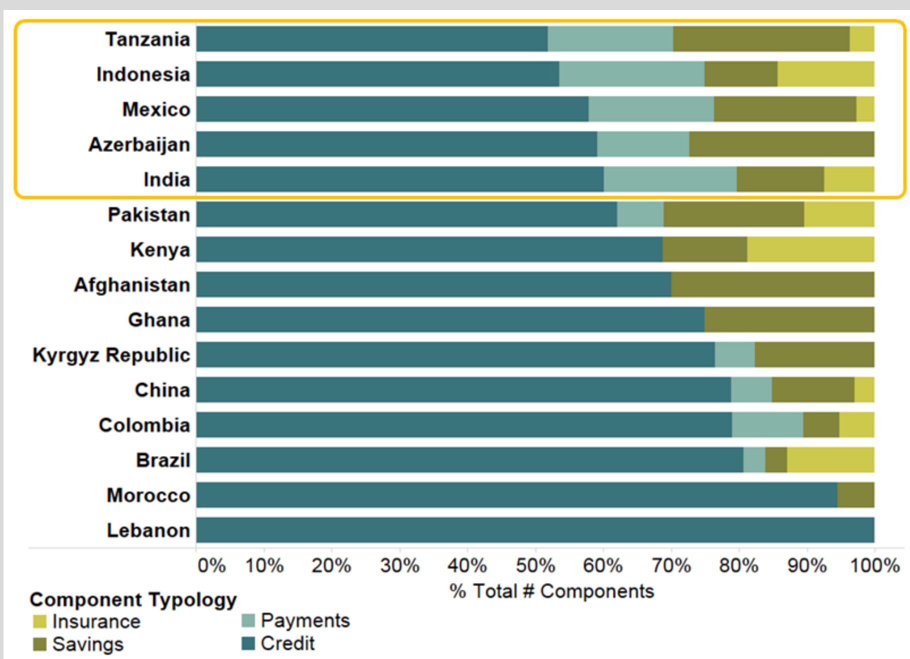
Sources: World Bank and IEG.

Note: Shaded countries have been selected for field based studies. All figures are preliminary.

61. **The multiple country case studies design will allow answering the evaluation questions for both the "common case" as well as the "critical case".** Credit focused interventions dominate the entire Bank Group portfolio in financial inclusion (Figure 6). The selected 15 countries represent a cross-section of both credit-dominated portfolios (the "common case"), for example those of Morocco, Lebanon, Brazil etc.) as well as portfolios with relative high share of interventions that aimed at broadening the financial inclusion agenda to also cover payments, savings and insurance (the "critical case"), for example Tanzania, Indonesia or Mexico. These two cases will allow investigating the requirements for broadening the financial inclusion agenda as well as into success factors (Figure 9).

62. **Of these 15 countries, five were chosen for additional field studies, based on a purposive selection: Azerbaijan, India, Indonesia, Mexico, and Tanzania.** These five field based case studies will take a look at historical context as well, at times dipping back farther than 6-7 years to understand context, especially when drawing from earlier CASCRs and the like. Consideration for the purposive selection of these four countries are geographic and regional considerations as the Bank Group portfolio is relatively evenly spread across most regions (see annex B, Figure B.2). Beyond these considerations, the proposed field visit countries have the most diverse portfolios which will enable the evaluation to test its hypothesis and evaluation questions on the spectrum of financial services. They are also rich in evaluated projects.

Figure 9. Diversity of Financial Inclusion Interventions in the Selected 15 Country Cases

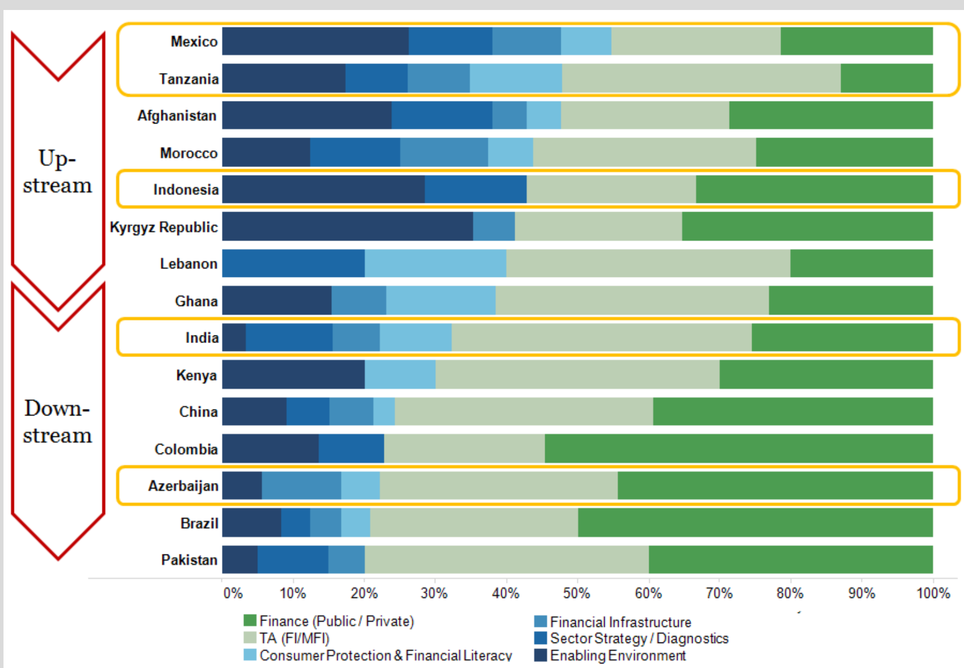


Source: IEG portfolio analysis.
Notes: Highlighted countries were selected for field based cases. All figures are preliminary.

63. **The case study design will also allow testing hypotheses for policy- focused interventions and finance-focused interventions.** These 15 countries provide an opportunity to learn from portfolios that focus more heavily on policy advice ("upstream" advice) as well as from those that provide mostly "downstream" support, that is, direct support in the form of technical assistance and finance through financial intermediaries. The proposed five field-based case studies are distributed across this spectrum with a slight emphasis on high- to mid-upstream support and one case with where the support is mostly downstream. Such a grouping will enable to test hypotheses in parallel for upstream and downstream countries (Figure 10).

64. **The proposed 15 country cases will also provide an opportunity to zoom into areas of special interest.** Not only will these countries enable the evaluation to explore themes in depth such as upstream advice through WB Lending, technical assistance, analytic work (including FSAPs) and capacity building to financial intermediaries through IFC Advisory Services, and direct investments in financial intermediaries through IFC Investment Services, but they will also provide an opportunity to look at specific financial inclusion approaches such as IFC's investment in (and advisory services to) holding companies that will in turn invest in MFIs or the transformation of non-profit credit only MFIs into deposit taking institutions. Such investments and advisory activities are present in several of the selected country case studies such as Azerbaijan, Pakistan, and Tanzania.

Figure 10. Focus of Bank Group Financial Inclusion Interventions in the Selected 15 Country Cases



Source: IEG portfolio analysis.
Notes: Highlighted countries were selected for field based cases. All figures are preliminary.

65. **Contribution analysis will be used in field-based country cases to help identify the extent to which World Bank Group interventions actually contributed to the observed development results.** Mayne (1999) defines contribution analysis as "[a] specific analysis undertaken to provide information on the contribution of a program to the outcomes it is trying to influence." Contribution analysis attempts to explore and perhaps demonstrate what Hendricks (1996) calls "plausible association"; whether "a reasonable person, knowing what has occurred in the program and that the intended outcomes actually occurred, agrees that the program contributed to those outcomes?" (Mayne 1999). Box 6 outlines how contribution analysis will assist the evaluation in strengthening and substantiating the effects of World Bank Group activities on observed outcomes and impact.

Box 6. Use of Contribution Analysis in the Financial Inclusion Evaluation

A central challenge in evaluating the World Bank Group's program effectiveness in promoting financial inclusion is that it is never the only cause of observed outcomes and impacts. Instead, activities contribute to observed outcomes that are also influenced by local and global policies, events, and activities, both positive and negative. Contribution analysis provides an explicit framework to consider the plausible association of interventions or programs to outcomes while accounting for the various other factors that may have influenced observed outcomes.

Within a given context, where there is a challenge attributing outcomes to Bank Group activities, contribution analysis starts from a theory of change with a clear results chain linking WBG activities to outcomes to impacts which explicitly acknowledges any underlying assumptions, risks to the outcome, and other influencing factors outside of the direct control of the World Bank Group. After gathering all existing evidence available to test the theory of change, the evaluator assembles and assesses the contribution story, relating observed actions of the intervention or program to the observed outcomes. This begins to allow the evaluator to determine the credibility of the "story" and the main weaknesses. Further evidence gathering can explore areas where the story about the contribution of the intervention to results is less credible or clear. For example, field work can clarify what occurred in what sequence, how reasonable the initial assumptions in the theory of change were, and what the role of external influences and other contributing factors was, all in service of determining the contribution of World Bank Group activities. Using this evidence, the story can be strengthened and substantiated.

In the country case studies for this evaluation, IEG will pilot the application of contribution analysis using this sequenced methodology. After constructing the results chain for the interventions in a given country, the team will make explicit the risks, assumptions, and other contributing factors that may influence observed outcomes and impact. Desk work and interviews will establish the initial story about the contribution of the Bank Group program in each country to observed changes in financial inclusion. The field missions will be used to validate this story and fill in missing information required to understand how other (positively and negatively) contribution factors came into play and how reasonable were the assumptions underlying the hypothesized results chain. In the end, the aim for each country is to have a highly credible and well-evidenced account of the contribution of the World Bank Group program to financial inclusion.

Sources: Mayne 1999, 2012.

66. **In the context of country studies, assessing the Bank Group's role as convener and thought leader in financial inclusion will be central.** One of the major contributions the Bank Group has to offer is its convening power, which is its capacity to join policy makers in a country and shape its financial inclusion agenda. In the planned five field-based country case studies, this evaluation will take a structured approach and gather data on key areas from key informants (for example other players in the financial inclusion space in these countries) to assess in how far the Bank Group's role of convener and thought leader contributed to the achievement of country level outcomes, as defined in the Theory of Change (Figure 8).

67. **The assessment of World Bank nonlending activities will have to follow a pragmatic approach.** The World Bank's AAA, including economic and sector work, nonlending technical assistance, trust fund support and reimbursable technical assistance, are not integrated in an overall results framework. Therefore evaluation benchmarks, that is, "objectives" against which these activities could be assessed, have not been established. In its evaluation, IEG will adapt a pragmatic approach, that is, make reasonable assumptions about what nonlending work was trying to influence. As many nonlending activities also lack proper documentation, the evaluation will focus on the major pieces where sufficient documentation can be retrieved. In general, results of nonlending will only be covered for countries that will be studied in depth in the five country case studies—and to the extent that they are referred to in Country Assistance Strategy Completion Reports Reviews. However, IEG will examine the patterns of World Bank self-evaluation data on AAA work to see the extent to which they can help illuminate more and less successful activities or aspects of the work. To augment its understanding of the World Bank Group's broader influence, IEG will add a case study to capture the WBG's role as global convener and thought leader in one major initiative.

Quality Assurance Process

68. **This Approach Paper has been peer reviewed to ensure relevance of evaluation questions and issues covered, adequacy of scope of the evaluation, and appropriateness of methodology and so the evaluation will be accurate, credible, and impartial in its findings and recommendations.** Peer reviewers for the evaluation will come from outside IEG: Prof. Shawn Cole, Harvard Business School; Eric Oldsman of Nexus Associates; and Leora Klapper, Lead Economist, DECFP, World Bank (Approach Paper stage) with another World Bank Group peer reviewer to be confirmed.

Expected Outputs and Dissemination

69. **The primary output of the evaluation will be the report to the Board's Committee on Development Effectiveness (CODE),** which will contain the main findings and recommenda-

tions. Ultimately, the finished evaluation will be published and disseminated both internally and externally. IEG will develop working papers, presentations, quick notes, blogs, videos, and other products as appropriate for other audiences for the evaluation, including the key stakeholders.

70. **Regular stakeholder interaction will be sought to enhance the evaluation process.** This will include consultation and outreach while the evaluation is under way and dissemination and outreach once the study is complete. During evaluation preparation, the team will solicit feedback and comments from stakeholders, in particular World Bank Group management and inclusive finance practitioners in the industry and government agencies in client countries, to improve the evaluation's accuracy and relevance. The principles of transparency and participation will guide this process. Such stakeholder interaction will contribute important information and qualitative data to supplement data, interviews, case studies, and other research. Social media will be used to reach out to the broader development community and concerned stakeholders, potentially including beneficiaries of financial inclusion initiatives. Consultations will also be held during field missions with stakeholders including government counterparts, bank staff, NGOs and other donors, private sector and beneficiaries.

71. **In addition to outreach during the evaluation process, IEG will implement an outreach plan once the evaluation is completed.** IEG will launch the report both in Washington, DC, and at a major international conference. The efforts will target key stakeholders, including staff at headquarters and country offices, other multilateral development banks and donors, government authorities, civil society organizations, and counterpart officials. Through these means and relevant international fora, the team will seek to maximize awareness and the value and use of findings and recommendations to strengthen development outcomes.

Resources

72. **Timeline and budget.** The evaluation will be submitted to CODE by the end of FY15. The budget for the study is estimated at $1,050,000, an amount consistent with other major IEG sector studies.

73. **Team and Skills Mix.** The skills mix required to complete this evaluation includes evaluation experience and knowledge of IEG methods and practices, including econometric and portfolio analysis; familiarity with the policies, procedures and operations of IFC, MIGA, and the World Bank; knowledge of World Bank Group and external information sources; and practical, policy, and academic expertise in key areas of inclusive finance, systemic policy work and country dialogue and MFI finance. Because the product range is broad, the team must also encompass a number of members with diverse skills and experience.

74. The evaluation will be prepared by a team led by Stefan Apfalter (co-task team leader), Andrew Stone (co-task team leader), Anjali Kumar (advisor), Mariano Cortes, Jack Glen, Amit Banerjee, Disha Zaidi, Takatoshi Kamezawa, Anqing Shi, Melvin P. Vaz, Jacqueline Andrieu, Daniel Palazov, Victor David Malca, Feruza Akbarovna Abduazimova, and Nadia Asgaraly. Together, this team affords substantial knowledge and experience on key subject matters as well as on the respective institutions of the World Bank Group, as well as on evaluation methodology. Thus, expertise in multiple IEG departments (including IEGPS and IEGCC) has been mobilized, appropriate to the needs of the evaluation. The report will be prepared under the direction of Andrew Stone, Head of Macro Evaluation, IEGPE, Stoyan Tenev, Manager, IEGPE; and Marvin Taylor-Dormond, Director, IEGPE.

Attachment A

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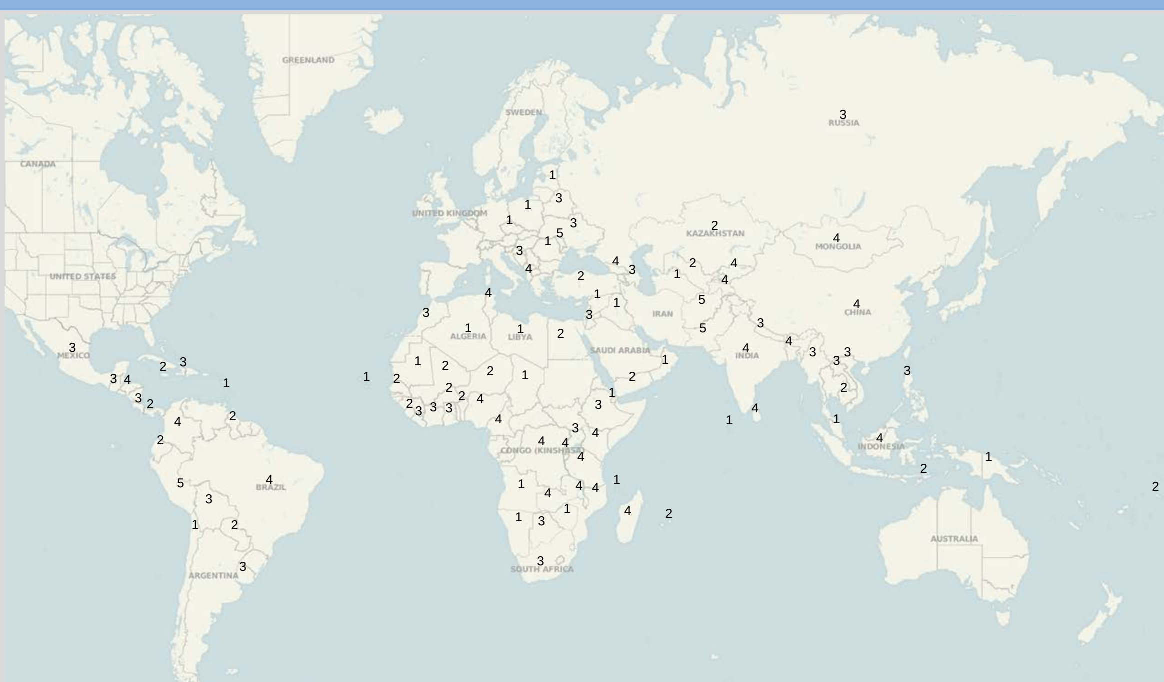
Attachment B

Preliminary Portfolio Review

1. **This preliminary portfolio review aims at providing an overview of the World Bank Group's support in the area of "financial inclusion" for projects approved between FY07 and FY13.** This support is channeled through the three institutions of the Bank Group including World Bank lending and non-lending technical assistance and economic and sector work (AAA), IFC Investment and Advisory Services, and MIGA guarantees. The analysis focuses on projects approved FY07-FY13 and presents data by approval year. The evaluation itself will also cover projects approved *prior* to FY07 that were evaluated during FY07-FY13. As such, these additional projects are not reflected in this analysis as their data cannot be meaningfully represented by approval fiscal year given the varying length of a project's life (between 2-8 years).

2. **Over the past seven years, the World Bank Group has been active in 114 countries across all regions.** The map below visualizes the global distribution of Bank Group projects by product line, where product lines are known as WB Lending, WB AAA, IFC Investment, IFC Advisory, and MIGA guarantees. Just over 50 percent of countries have more than two product lines.

Figure B.1. World Bank Group Support towards Financial Inclusion by Types of Institutional Engagements

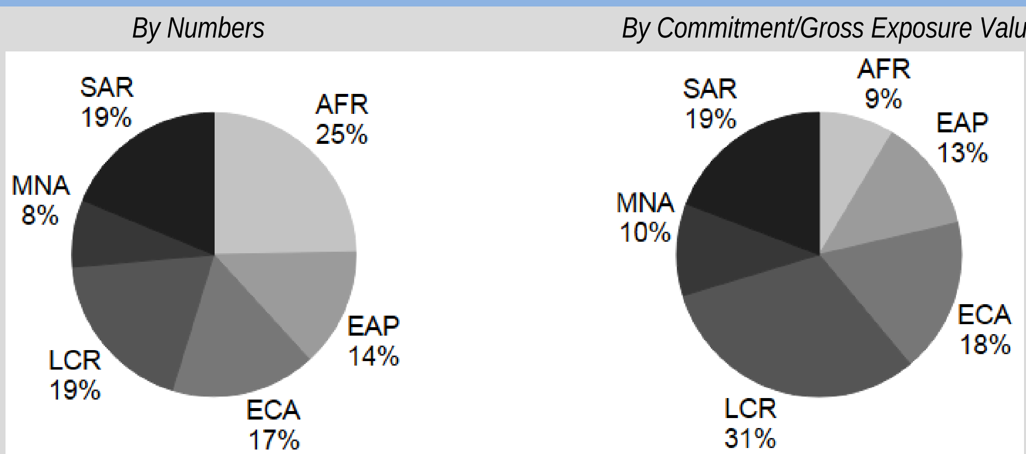


Source: IEG Portfolio Review.
Note: Each country receives one point for having at least one project in each of the following areas: WB Lending, WB AAA, IFC Investment, IFC Advisory, MIGA guarantees. All figures are preliminary.

3. **Overall, financial inclusion interventions have been more prevalent in the Africa Region by number of projects, while Latin America has seen the largest share of project commitments (see figure B.2).** However, there are differences both across and within World Bank Group institutions. For example, nearly half of IFC Advisory Services projects and commitments are in Africa (27 percent of projects; 31 percent of commitments) and South Asia (23 percent of projects; 17 percent of commitments). On the other hand, while nearly half of IFC Investments are Latin America (27 percent) and Europe and Central Asia (20 percent) these represent an even greater share of its commitments in these regions (36 percent in LAC and 30 percent in ECA).

4. **MIGA, on the other hand, is heavily focused on Europe and Central Asia with 48 percent of projects and 61 percent of gross exposure.** LAC 28 percent of projects but 13 percent of gross exposure while SAR 12 percent of projects and 24 percent of gross exposure. AFR is smallest with 12 percent of projects but only 2 percent of gross exposure.

Figure B.2. Regional Distribution of World Bank Group Support towards Financial Inclusion

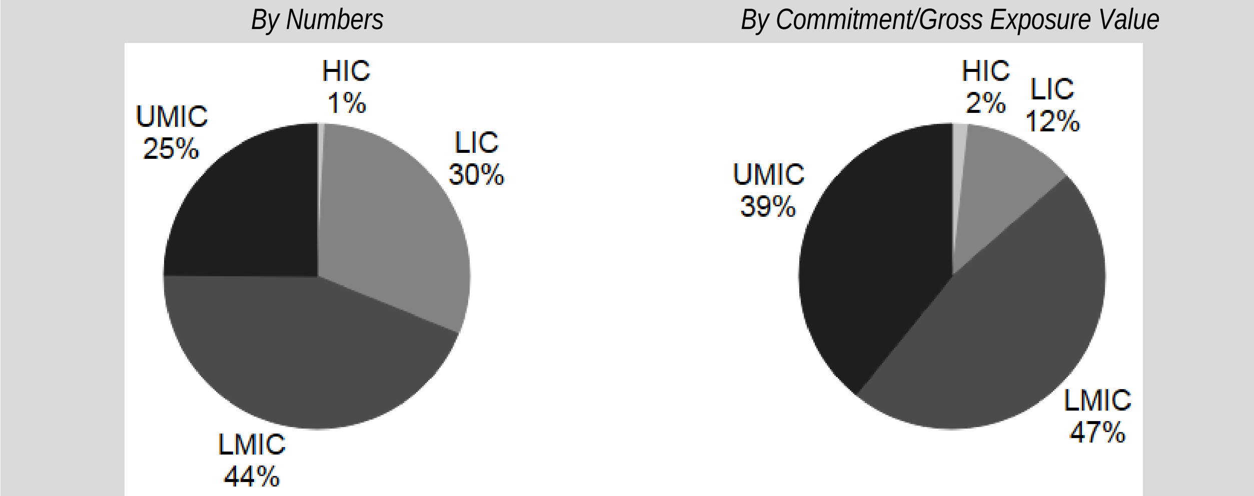


Source: IEG Portfolio Review.
Note: All figures are preliminary.

5. **By number of projects, the World Bank Lending portfolio is concentrated in the Africa region (38 percent of projects), but these account for only 8 percent of project commitments.** On the other hand, LAC represents 17 percent of projects but 32 percent of commitments. South Asia represents only 16 percent of number of projects but 30 percent of commitments. World Bank AAA regional distribution shows small differences when comparing number of projects to commitments (i.e. SAR AAA accounts for 23 percent of projects and 25 percent of commitments).

Across Income Levels, while World Bank Group interventions are evenly distributed across Lower, Lower-middle, and Upper-middle countries by number of projects, 86 percent of commitments reside in Lower-middle and Upper-middle income countries. For IFC Investment, 33 percent of projects and 51 percent of commitments reside in Upper-middle Income countries. More than half of MIGA's projects (56 percent) and gross exposure (54 percent) reside in Lower-middle Income countries.

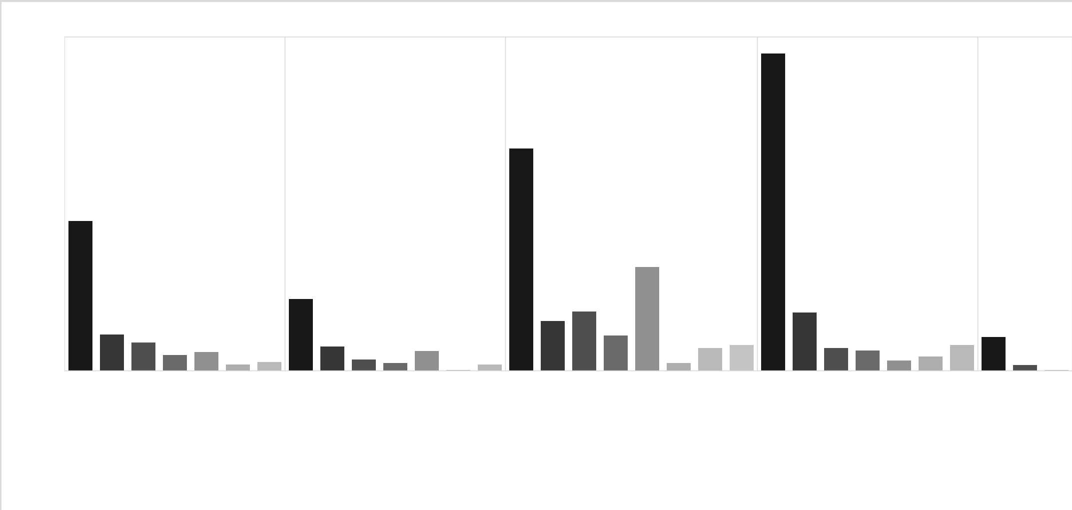
Figure B.3. Distribution of World Bank Group Support towards Financial Inclusion by Income Level



Source: IEG Portfolio Review.
Note: All figures are preliminary.

Across the three institutions and their respective product lines, credit is the focal area, though payments, savings, and rural finance represent a significant amount of activity especially for World Bank Lending and IFC Investment.

Figure B.4. Financial Inclusion Portfolio Components by Institution



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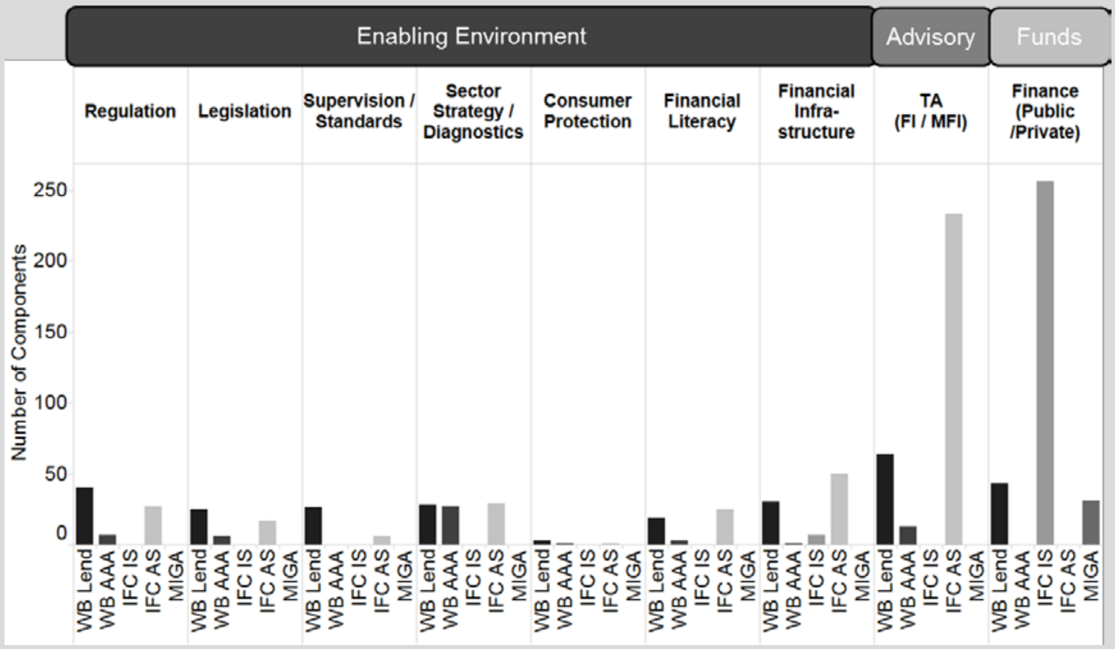
Source: IEG Portfolio Review.
Note: All figures are preliminary

6. **As can be seen in Figure B.5., the type of activity carried out by each of the World Bank Group institutions varies according to their respective strengths and advantages.** For example, World Bank activities are evenly distributed across legal, supervision/standards, financial literacy, and financial infrastructure, with increased support in the area of regulation. Meanwhile IFC Advisory is heavily focused on supporting financial intermediaries, firms, and individuals through technical assistance and capacity building while IFC Investment and MIGA Guarantees are focused wholly on channeling funds through financial intermediaries.

Figure B.5. Expanded View of Financial Inclusion Portfolio Components towards Enabling Environment, Advisory and Funding



Source: IEG Portfolio Review.
Note: All figures are preliminary.

Attachment C

Evaluation Design Matrix

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
Has the World Bank Group been effective and efficient in creating better functioning markets that provide the full range of financial services to the poor and micro enterprises at adequate quality?					
1. Has the World Bank Group's support for inclusive finance been relevant to client countries?					
a. Given the body of evidence from the literature and increasing number of impact evaluations, is there a sound economic rationale for World Bank Group to be active in financial inclusion?	Information on effectiveness of financial inclusion interventions, economic rationale for public policy interventions, WBG portfolio data	Systematic Reviews (SRs) of Impact evaluations (IEs), policy documents, portfolio data		Meta evaluation and policy analysis	
b. What are IFC's, MIGA's and World Bank's support instruments for inclusive finance and how do they relate to each institution's corporate strategy? How do they differ from each other, and are they	Information on the nature of WBG support, project components and design features; information on institutional strategies and frameworks	Strategies, operational notes and frameworks, project design documents (PADs, Board Documents, Underwriting Documents	Document retrieval, interviews with key informants	Document review, portfolio analysis, organizational and strategic mapping, interviews with key informants	Some strategy has been implicit, or embodied internally or informal in presentations and memos that may be hard to find.
	Information on resources allocations of financial inclusion interventions,		Portfolio analysis, data collections/	Resources mapping to assess resources deployment and	Indicators on the need / sector maturity /

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
consistent and complementary? c. How strategically did the World Bank Group allocate its resources on financial inclusion interventions to those countries how need them most? d. How well did systemic interventions that aim at improving the enabling environment for financial inclusion address client countries' constraints and priorities? e. How well did interventions that provided finance for the supply of micro finance reflect the country's enabling environment / systemic factors?	country level indictors for need of these interventions Information on relevance of systemic interventions given the countries' level need and relative development priorities / constraints re financial inclusion Information on relevance of funding support given the countries' level need and relative development priorities / constraints re financial inclusion	Project documents, portfolio databases; Country Assistance Strategies (CAS) and their Completion Report Reviews (CASCR-Rs) country level data on maturity / constraints with re to financial inclusion; Findex, MIX, EIU FSAP data, informal enterprise survey data.	retrieval (indicators) Portfolio analysis, data collections/ retrieval (indicators) Portfolio analysis, data collections/ retrieval (indicators)	indicators of relative need and constraints **Portfolio analysis to** assess relevance of interventions based on micro evaluation ratings **Content Analysis** to assess in how far projects addressed priority issues according to the relevant CAS, CASCR-Rs, EIU, FSAP, MIX data **Country case studies** (desk-based and missions) to get context information and expand coverage to non-lending activities / systemic intervention / enabling environment	constraints at country level may not cover all aspects of all WBG client countries. IEG will outline limitations in the report. Potentially a significant share of WBG systemic interventions has been carried out through non-lending / AAA which is not embedded in a results framework nor its outcomes evaluated independently upon completion; outcomes of non-lending will hence only be assessed based on existing self-ratings and, in an independent manner, in the context of country case studies (desk based and missions)

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
2. Has the World Bank Group been effective in its systemic interventions to create an enabling environment? a. To what extent have projects and project components that targeted the enabling environment for inclusive finance achieved their stated objectives? Have such interventions effectively addressed deficiencies in regulatory and oversight regimes; improved consumer protection regulations and enforcement thereof; contributed to enhancing the financial infrastructure (credit bureaus, collateral registers etc.); and enabled adequate competition? b. What can we learn from cases where the implementation of systemic interventions was particularly successful or failed?	Information on achieving the respective objectives of creating an enabling environment	Ratings and qualitative information on development outcomes and results achievement from IEG validated micro evaluation systems, including ICRs, PPARs, XPSRs, PES, PERs, PRC, PIMs, mission case study interviews with relevant experts and stakeholders, beneficiary assessments.	Data extraction of ratings and specific section within the micro evaluation documents referring to achievement of set objective (rating and other qualitative information indicating success or failure) and portfolio analysis of the thus obtained data	Portfolio analysis of portfolio data and outcome ratings to assess development outcomes / results achievements including patterns Content analysis to identify patterns of success and failure in micro evaluation documents Country case studies (desk-based and missions) to identify detailed context information and gain in-depth understanding factors of success and failure; identify common patterns across regions Contribution analysis to assess the linkages of WBG interventions and development outcomes in the context of the mission-based country cases studies	Potentially a significant share of WBG systemic interventions has been carried out through non-lending / AAA which is not embedded in a results framework nor its outcomes evaluated upon completion; outcomes of non-lending will hence only be assessed in the context of country case studies (desk based and missions). In addition, many observed changes may be attributable to a variety of positive and negative factors, including the work of Governments and other donors and major events such as the global financial crisis. This complicates the task of identifying WBG contribution.

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
3. Has the World Bank Group been effective in funding institutions that provide financial services to the poor and microenterprises, including funding through intermediaries or apex institutions? Has the World Bank Group been effective in advising these institutions in improving their performance?					
a. To what extent has such a financial support through line of credits, investments and/or guarantees helped increase the supply of financial services to the poor and microenterprise? To what extent did its advice improve their performance?	Information on development outcomes and performance of projects; information on supply of financial services; information on performance of advisory clients	Project level evaluation data (ICRs, PPARs, PCRs, XPSRs etc.); development outcome ratings; qualitative information from these sources; country case studies; CAS, CASCR-Rs; MIX data, financial data on relevant financial institutions	Data extraction of ratings, quantitative and qualitative information and specific section within the micro evaluation documents	**Portfolio analysis** of performance / results reported in micro evaluation documents **Country case studies** (desk-based and missions) to identify detailed country level data on outcomes, access to financial services, effects on households and enterprises; and gain in-depth understanding factors of success and failure **Contribution analysis** to assess the linkages of WBG interventions and development outcomes in the context of the mission-	Data on the supply of financial services as contained in the project documents may be incomplete or not representative for the entire country; MIX data do not cover all countries equally and hence data will not be comprehensive or representative; household and enterprise data may lack in micro evaluations documents (ICRS, PPARs, XPSRs etc.); enterprise survey data focuses on specific countries and hence is not representative; contribution analysis and stakeholder assessments can only
b. Is there evidence that World Bank Group interventions contributed to improved access to payments, savings, credit and insurance for the poor and microenterprises? Has such access been of the needed quality, affordable, following consumer protection regulations, and embedded in a stable financial system? And has such access led to increase usage?	Information on development outcomes and performance of projects; information on access to financial services, including on qualitative aspects etc.; information on usage of financial services				
c. Subject to availability of data, to what extent has the increase supply of micro financial services supported poor household to improve their livelihood, increase	Subject to availability, information on welfare of FI clients / beneficiaries, including on household income level,		Focus groups, beneficiary		

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
and/or smoothened their income, supported consumption, allowed to mitigate risk? d. Subject to availability of data, to what extent has the increase supply of micro financial services supported microenterprises to growth, increase their employment, sales, investment, or productivity?	consumption, investments, health/ education expenditures Information on FI clients / beneficiaries, including on micro enterprises and their investments in assets, revenue changes and employment etc.	Household data, MIX data MIX data	assessments Focus groups, beneficiary assessments; analysis of enterprise survey data	based country cases studies **Beneficiary assessments** of households and / or micro / very small enterprises through focus groups or surveys in the context of one or two mission-based country cases studies	be carried out for mission-based country case studies and are there for mainly for providing insights into a subgroups of beneficiaries; beneficiary assessment will not follow randomized control trial protocol as this would have to be launched at the start of project implementation; control groups can only be synthetically produced; beneficiaries that dropped out of the scheme can only be captured if the MFI kept a record of them; substitution effects cannot be assessed.
4. Are World Bank Group interventions in inclusive finance efficient instruments, from both a program and institutional perspective? a. To what extent has support in inclusive finance reached the poor and microenterprises? b. What is the utilization rate of support provided (e.g. lines of credit (LoCs), guarantees, and other instruments for inclusive finance)?	Information on client reach, client structure of supported MFIs Information of utilization of LoCs, loan portfolio size, composition, business success / profitability and quality	Project level evaluation reports (ICRs, PPARs, PCRs, XPSRs etc.); qualitative information from	Data extraction and portfolio analysis of supported projects	**Portfolio analysis** of results reported in micro evaluation documents **Content analysis** to identify patterns of success and failure in micro evaluation documents **Country case studies**	Project level record or micro evaluation reports (PPARs, ICRs, XPSRs etc.) may not contained the detail information needed to assess the targeting of the poor /

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
c. Are the activities either profitable or sustainable? What is the profitability of IFC and mainstream MIGA activities? For World Bank and for all subsidized WBG activities, are they meeting the target rate of return? After World Bank Group interventions, is there an enduring benefit in correcting the market failure?	Information on outcomes being sustained, i.e. effective beyond WBG support; information of on financial status / business success / rate of return of supported projects / MFIs; information on sustained correction of factors leading to market failure	these sources; country case studies; CAS, CASCR-Rs; MIX data		(desk-based and missions) to identify detailed country level data on targeting of the poor and MVSEs; utilization rate of LoCs; update of previously evaluated projects (based on existing ICRs; PPARs, XPSRs, PERs etc.) and gain in-depth understanding factors of success and failure	MVSEs; or the utilization of specific support types. WBG M&E systems do not foresee project outcomes being monitored beyond project closure; hence sustainability of FI interventions can only be assessed in the context of mission-based country case studies.
5. Is the World Bank Group effectively managing factors within its control? a. How well did country strategies reflect World Bank Group's research and knowledge in inclusive finance?	Information on alignment of WBG research agenda, content and WBG strategies	Record of the WBG [and CGAP] research /publication activity; institutional strategies and operational frameworks	Document retrieval	**Literature review** of WBG research, complemented by literature of external sources **Content analysis** to assess alignment of strategies with WBG research outcomes / results **Country case studies** (desk-based and missions) to assess alignment of strategies with WBG research outcomes on the ground with a more	

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
				holistic approach	
b. Is the WBG meeting its established work quality standard in preparation, implementation and supervision? How does performance vary by country conditions, and the presence or absence of complementary or precedent reform reforms or projects? c. Are World Bank Group monitoring and reporting standards adequate?	Information working quality standards and meeting thereof	Project level evaluation reports (ICRs, PPARs, PCRs, XPSRs etc.); qualitative information from these sources; country case studies; CAS, CASCR-Rs;	Data extraction of ratings and specific section within the micro evaluation documents referring to work quality and achievement of set objective (rating and other qualitative information indicating success or failure)	**Portfolio analysis** of portfolio data to assess work quality of project portfolio and how they vary by country, region and if and how the results correlate with presence / absence of related reform efforts Econometric and statistical analysis of relationship of favorable development outcomes to measured IEG flags for work quality.	
	Information M&E standards and meeting thereof	Project level evaluation reports (ICRs, PPARs, PCRs, XPSRs etc.); qualitative information from these sources; country case studies; CAS, CASCR-Rs;	Data extraction of ratings and specific section within the micro evaluation documents referring to M&E Document retrieval	**Portfolio analysis** of to assess M&E activities and if they are fir for purpose **Country case studies** (desk-based and missions) to assess adequateness of M&E standards and practice	
d. Are the three World Bank Group institutions leveraging synergies through adequate coordination and sequencing of interventions? To what extent have complementary interventions contributed to the effectiveness of assistance? Has the presence or absence of multiple activities and/or sequenced activities influenced outcomes? e. What can we learn from successful or failed World Bank Group coordination across the various units contributing to the inclusive	Information on the extent to which World Bank Group units worked in the same country, set of interventions, regions etc. Information on complementary role, coordination and collaboration of World	Qualitative information on WBG coordination and leveraging of synergies from IEG validated micro evaluation systems, including ICRs, PPARs, XPSRs, PES, PERs, PRC, PIMs, CASCR-Rs, CPEs etc.	Interviews with key informants and project stakeholders, including at the country level	**WBG staff interviews/survey.** **Portfolio analysis** of to assess leveraging of synergies and complementary roles	Coordination efforts tend to be poorly documented in project documents and micro evaluation documents, according to IEG experience; hence the document-based review will have to be complemented by country visits to complete the picture

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
finance agenda?	Bank Group activities at project and country level			Country case studies (desk-based and missions) to assess adequateness of coordination and complementary roles, given the country specific context and history of WBG engagement	

Endnotes

[1] Based on 2011 World Bank Findex data of which an update is expected in time for the final evaluation; and IFC 2010.
[2] The literature suggests a mixed experience in practice, which will be discussed on pages 5-6.
[3] The President's statement especially emphasized electronic payments as an entrée to the financial system. "As early as 2020, such instruments as e-money accounts, along with debit cards and low-cost regular bank accounts, can significantly increase financial access for those who are now excluded." However, he also emphasized the importance of a range of services: ""When low-income workers or poor families gain access to basic financial services, they gain a foothold on the first rung of the ladder toward prosperity. Access to savings accounts, credit or remittances can help families afford essential services like water, electricity, housing, education and health care. When firms gain access to financial services such as credit or insurance, they can reduce business risks, expand their firms and create more jobs." Source: http://www.worldbank.org/en/news/press-release/2013/10/11/universal-financial-access-vital-reducing-poverty-innovation-jim-yong-kim
[4] Consistent with IFC usage of this term, these include microenterprises of less than 5 employees and very small enterprises of less than 10 employees.
[5] It would provide little benefit (and potentially great cost), for example, to try to increase the numbers of those who hold an account with the formal sector if they do not use it. By contrast, focusing only or mainly on access may distort incentives. In this context, by formal, IEG means established under and governed by law, whether or not the law is well-enforced.
[6] At the country level, the Global Findex data show sharp disparities in the use of financial services between high-income and developing countries. The share of adults in high-income countries who are "banked" is more than twice that in developing countries. In low-income countries formal account penetration stands at only 24 percent, compared to 89 percent in high-income countries. Looking more closely at the individual level, data also show significant variations. Wealthier adults tend to make greater use of formal financial services; in developing countries, adults in the highest 20 percent of income earners are more than twice as likely to have an account as those in the lowest 20 percent Disparities in the use of financial services based on many of these parameters exist also in developed countries, but they are more pronounced in developing countries. In other words, if you live in a developing country, it matters more whether you are poor, have a low level of education, or live in a rural area.
[7] **Source:** EPPI-Centre, Social Science Research Unit, Institute of Education, University of London. **Main Findings:** No good evidence for benefit of microfinance on well-being of poor. RCTs: No evidence on positive impact of microfinance interventions on well-being of poor. Impact found on business activities. Few impacts on health, education, subjective well-being, income or consumption expenditures. Pipeline designs studies: Little significant effect of microfinance on well-being. Limited evidence of strong positive impacts. Greatest impacts reported by studies with the weakest designs. With/without, before/after and panel designs: Mixed results. Longitudinal study – problems controlling for unobservables. IEs of microfinance tend to have low internal validity.
[8] **Full Title:** *Do Micro-credit, Micro-savings and Micro-leasing Serve as Effective Financial Inclusion Interventions Enabling Poor People, and Especially Women, to Engage in Meaningful Economic Opportunities in Low- and Middle-Income Countries? A Systematic Review of the Evidence*. **Main Findings:** Varied evidence made it difficult to draw conclusions. Both micro-credit and micro-savings can reduce poverty but do not in all circumstances, nor for all clients. No evidence on micro-leasing. Unanswered questions: success of micro-leasing, micro-credit and micro-savings in enabling poor clients to engage in

economic opportunities…and outcomes. Do not know circumstances in which these interventions are successful nor whether targeting women is more effective than mainstream interventions.

[9] **Main Findings:** Innovatively designed savings products as a short-term solution can increase income of the poor. Mobile phones can lead to increased household consumption and asset accumulation via increased income. No evidence on impact of debit cards or other payment methods. Improved access to credit associated with improved ability of farmers to generate income through production and output, with potential spillovers to social networks. Credit leads to higher agricultural incomes. No evidence on impact of financial literacy. More research needed to understand impact of different technologies, effect of savings products on behavior.

[10] **Main Findings:** Positive impact of microcredit and microsavings on clients' incomes, expenditures, housing and asset accumulation. Microfinance also positively affects health, nutrition and food security, but microcredit seems to affect negatively clients' children's education, likely because it may create a problem paying school fees. No significant effect of microcredit on job creation. Microfinance, specifically microcredit, might increase poverty by fostering consumption rather than investment. Indeed, business seems to fail to generate profits to pay for the high interest rates of microcredit. Results suggest that microfinance can reduce households' vulnerability to negative shocks. Microfinance should target poor entrepreneurs instead of treating every poor individual as a prospective entrepreneur. Indeed, microsavings is overall more effective than microcredit in reducing poverty, as it does not require high income to pay off the debt.

[11] **6 Regions:** 44 impact evaluations: eighteen studies from Africa; eight from South Asia; eight from East Asia; eight from Latin America and the Caribbean; one from the Middle East and North Africa; and one from Central Asia and Eastern Europe. Included studies evaluated private-sector interventions to either improve access to finance (A2F) or farmer and business training interventions, or both. **Main Findings:** A2F interventions generally produce positive impacts on agricultural outcomes, such as adoption of technologies…with resulting increases in production, productivity, and/or farm income and profits. A significant portion of the positive results when disaggregated by value chains or groups of beneficiaries reveal…statistically not significant effects for some value chains or groups of beneficiaries. [T]he few A2F evaluations that examine impacts on per capita consumption and poverty generally show positive results… Most of the successful A2F projects combined provision of credit to farmers with training, technical advice, or other kinds of help… Evaluations of farmer and business training initiatives have identified positive effects on immediate outcomes such as adoption of technologies…but mixed results for longer-term outcomes such as productivity, farm income and profits.

[12] **Main Findings:** Social programs to improve the capabilities of poor seem overall to have a positive effect on a wide range of outcomes. Impact assessments of microfinance and microenterprise programs found mixed results. Self-selection can mislead interpretation of results. People who self-select to participate in a program cannot be compared to people who choose not to participate. Results on impact of microfinance institutions are mixed. Evaluations in Peru and Brazil indicate a positive effect on the income of clients. Results for Chile and Bolivia are not significant, or are negative. Results of evaluation of microenterprise training programs are mostly positive-- improved income, the likelihood of business survival after four months, and repayment rates to microfinance institutions. Conditionality improves social program results by affecting the behavior of beneficiaries. Interventions that include supply-side and demand-side components are more effective.

[13] **Main Findings:** An efficacy study found household with hypothetical product increased purchase of fertilizer. Another showed insurance plus loan made farmers less likely to purchase inputs compared to loan only. Eleven studies on take up identify non-price factors associated with higher demand: higher income, greater liquidity and financial literacy, lower income diversification, trust in and familiarity with provider and product. Promotion of insurance focusing on vulnerability, group/family responsibility or network-based trust may increase demand. Conclusions: Removing liquidity constraints and providing information may increase take-up. Products combined with agric. extension programs and financial literacy training may enhance take-up, impact. Need for more rig-

orous impact evaluations, gaps in evidence on take-up and impact, half evidence from lab experiments, little info on effects of risk, financial literacy, consumer education and group-based micro-insurance.

[14] **Main Findings:** Grants to microenterprise: One study reported measured effects of transfer of grants between men and women. It found that accumulation of assets and durables increases when grants are made to men rather than women. They suggest that female entrepreneurs, in contrast to male entrepreneurs, do not use small grants to make investments and do not gain returns on investments made from large grants. Microcredit: The effects across programs are heterogeneous but provide evidence of beneficial effects of microcredits given to women in terms of schooling, expenditures, assets, height-for-age in children and measures of women's empowerment. Two studies find small and insignificant impacts of transfers on contraception and fertility, and no impact on women's empowerment.

[15] **Main Findings:** Improving access to finance can help firms expand their operations, with a positive effect on quality and number of jobs created. The effects greatest for smaller firms. Improving access to finance for micro-enterprises can create jobs both through establishment of new businesses and through expansion of already existing ones. The latter effect tends to dominate in rural settings. Investments in services sector in urban areas and in agriculture in rural areas tend to create the most jobs. Collective loans are likely to have stronger employment effects than individual ones. Investment climate reforms—particularly business entry/registration reform and investment promotion—tend to lead to the creation of new firms with positive employment effects. But firms that enter be less likely to survive their first two years. So duration and quality of jobs created are not always clear. Training for youth produced either no effect or positive effects depending on the country, and on way training was designed and delivered. Combining in-class training with on-the-job training tended to have positive effects. Training most beneficial for women and disadvantaged youth.

[16] **Main Findings:** Microfinance has a significant positive impact on per capita income, non-land asset value and poverty incidence. Microfinance fails, however, to engender positive change on other poverty dimensions, namely non-food expenditures, per capita monthly and daily food expenditures, medical expenditures, and livestock. Overall, across countries and methodologies, it seems that microfinance generally has a short-term positive effect on borrowers, but that this effect is not necessarily sustained in the long-term. In terms of regional differences in impact, microfinance in Africa appears to have a more positive impact on poverty compared to elsewhere. A few impact studies found that the effect of microfinance on households' poverty and well-being is more likely to be significantly positive in the case of women borrowers in Asia and South America. The impact microfinance has on the poorest households is inconclusive. Experimental studies unanimously report insignificant and/or significant negative impact of microfinance on all the poverty dimensions and variables considered in this study while reports from quasi-experimental research are more mixed.

[17] Insurance includes micro-insurance. Payments include person to person (P2P), person to business (P2B) and government to person (G2P) payments, including international remittances.

[18] IEG's preliminary portfolio review indicates that most World Bank Group investments, guarantees, and loans support credit; fewer support savings, payment, and insurance. It is natural that the focus of World Bank Group's investment / loan portfolio has been more on credit, as savings, payments, and insurance require less financing. In these cases the users are putting money into the system in the form of deposits, premiums, and payments and income is earned directly from those payments.

[19] The preliminary portfolio analysis revealed that the World Bank has been active in a range of regulatory issues, in some cases playing a role in developing standards as well as assessing country practices and in providing technical assistance. In this context, the FSAP plays an important role. Jointly implemented by the International Monetary Fund and the World Bank, FSAPs analyze countries' financial sector regulatory and prudential frameworks, including their consumer protection provisions. Although FSAPs provide an excellent platform to consider the framework for financial inclu-

sion, the Bank has only recently (2012) issued a framework to assist in consistent and uniform coverage of these issues.

[20] As highlighted by the G20 leaders (Global Partnership for Financial Inclusion 2010). But financial education is also increasingly on the agendas of governments, nongovernmental organizations, and the private sector. For example, see OECD/INFE (2012).

[21] Putting together the "M" for mobile with pesa, which means money in Swahili, the most spoken language in Kenya.

[22] Although this would depend on the interaction of supply and demand.

[23] An additional 108 financial inclusion projects evaluated between FY07-13 were identified, but these were approved prior to 2007 and are thus not included in Table 2 (8 IFC AS, 32 IFC Investment, and 68 World Bank lending). However, they will be included in the evaluated portfolio. The difference in coverage between the committed and evaluated portfolios will be clearly represented in the evaluation.

[24] But not including SMEs.

[25] For these master contracts, its subprojects were recorded as a single project for each host country except for Ukraine, Georgia, and Serbia, where each host country had more than one guarantee and thus the collection of guarantees for a host country counted as one project.

[26] Including PCRs = Project Completion Report; PIMs = Post Implementation Monitoring reports (both IFC Advisory Services); IFC investment supervision and monitoring reports. World Bank AAA work for this period was not subject to IEG validation, so self-evaluation is the only source of information.