1. Do Financial Services Help Fight Poverty?

**Highlights**

- The poor face tremendous financial challenges and often require access to financial services to meet essential needs, yet they are mostly excluded.

- Financial inclusion – the access to and usage of a range of financial services – has the potential to benefit the poor through an array of channels: affordable and reliable payment systems for daily transactions or for remittances; credit or savings to smooth consumption and protect against shocks; financing to make large investments, for example for housing or to enhance the productivity of micro enterprises.

- Over the last 10 years, the microfinance industry grew in terms of numbers – and even more dramatically in terms of assets. The World Bank Group spent about 2-3 percent of its annual commitments on financial inclusion-related projects.

- In 2013, the World Bank Group declared universal financial access by the year 2020 to be a goal that is within reach through new technologies, transformative business models and ambitious reforms.

- 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.

- IEG reviewed the experience of the World Bank Group with financial inclusion to inform not only the implementation of the Bank Group’s universal financial access goal and its longer-term aim for financial inclusion of the world’s poor, but also the strategic discussion in and outside the World Bank Group about the role of financial inclusion in the post-2015 development agenda and the ways the Bank Group can support it.

1.1 Providing the poor with an array of financial services – or trying to “financially include” them – has become a growing focus for policy makers, development partners, and other key stakeholders. It is a means to promote shared prosperity and reduce poverty. Even though many countries have made considerable progress over the last few years, still about 2 billion adults worldwide are “unbanked” and close to 200 million formal and informal micro, small, and medium-size enterprises in developing economies lack access to affordable financial services and credit.\(^1\) The poor in particular are often excluded from financial services; but at the same time would require such services to smooth their volatile (and low) incomes, protect against vulnerabilities, or just facilitate day-to-day transactions.

1.2 In 2013, President Jim Yong 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.”\(^2\) For the World Bank Group, expanding financial inclusion is now understood to
be a core mean through which financial sector development contributes to its twin goals of ending extreme poverty and promoting shared prosperity with regard to poor households and microentrepreneurs.

1.3 **In this evaluation the Independent Evaluation Group (IEG) reviewed the experience of the World Bank Group with financial inclusion during the last six years. The goals of IEG’s evaluation are to inform not only the implementation of the Bank Group’s universal financial access goal, but also to inform the strategic discussion in and outside the World Bank Group about the role of financial inclusion in the post-2015 development agenda and the ways the Bank Group can support it. With the formation of a new Global Practice Group on Finance and Markets and the general reorientation and reorganization of the World Bank Group to enhance focus on attaining the twin goals, understanding the lessons of recent World Bank Group experience is critical. On the global development agenda, 2015 will be the window through which the development world looks beyond and capitalizes on the momentum generated by the Millennium Development Goals (MDGs) thus far. Even though the MDGs did not address financial inclusion per se, the post-2015 development agenda will likely show financial inclusion having a larger role in future global development efforts to combat extreme poverty and boost shared prosperity.** This evaluation is hence centrally relevant for both the World Bank Group and the global development community.

1.4 **The evaluation focuses on financial services for poor households and micro and very small enterprises,** 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. It analyzes the Bank Group’s interventions in light of the needs and constraints of the poor with regard to accessing financial services.

### Why Being Financially Included Matters for the Poor

1.5 **The poor face enormous financial challenges in meeting essential needs.** Poor families are more likely to send their members to far-away cities or even abroad, in the hope that they will send money home—creating the need for transfers (remittances). The income of the poor is not only lower, but also more volatile. People who live on an average of $2 per day often 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 may even come only once a season with 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 three main drivers of financial activities of the poor. Transforming irregular income flows into a dependable resource to meet daily needs poses a central challenge for the poor. Access to formal financial institutions can bring needed reliability to their financial lives: well-regulated 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 element (reliability) may pave the way for the second element (prosperity) down the road.

1.6 Financial inclusion has the potential to benefit the poor through an array of channels both directly or indirectly. For example, affordable and reliable payment systems have the potential to facilitate day-to-day financial transactions such as the above mentioned remittances or through credits and savings to smooth consumption. The latter is particularly valuable for poor households as they tend to have unpredictable – or often only seasonal – incomes. Another benefit is protecting against vulnerabilities such as illnesses or unemployment through primary savings or insurance, but also credit and remittances. Loans taken out or savings may be used to pay for child education or health care. A final key benefit can be making investments to, among other things, improve the condition of housing or to enhance the productivity of a very small or micro enterprise through savings or credit (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).

1.7 The poor, however, are far more often excluded from formal financial services. Of the 2 billion “unbanked” people, most live in developing countries. Despite considerable progress over the last few year, still 46 percent of adults in developing countries unbanked, compared to only 6 percent in developed countries (Demirguc-Kunt, Klapper, Singer and Oudheusden. 2015). Among them the poor are hit the hardest: Of those living on $2 per day, fully 77 percent lack a bank account. Figure 1.1 shows 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).

1.8 There has been considerable progress in financial inclusion in recent years, but it has been uneven across countries and not necessarily pro-poor nor pro-women. Overall the number of unbanked decreased from 2.5 billion in 2011 to 2.0 billion in 2014, connecting about 700 million to an account. The difference between the decrease in the number of unbanked (500 million) and the number of those newly connected (700 million) is a result of population growth during these three years. Account ownership increased in all regions, but was particularly strong in East Asia and Pacific, South Asia and Latin American and Caribbean regions – in each region by about 10 percent.
1.9 **Growth has been more limited in the Middle East North Africa and Sub-Saharan African regions.** The gender gap remained at 9 percent; similarly, the youth gap remained constant. China and India provided the most people with a new account, but it was China that connected the most poor to the financial system. In relative terms, China was only surpassed by Kenya which, globally, was the country with the strongest relative growth in financial inclusion for the poorest 40 percent. Other countries with strong pro-poor financial inclusion progress are the Islamic Republic of Iran, the Russian Federation, Nigeria, Brazil, and Mexico. In India and Indonesia, although absolute numbers of newly connected people are high, their growth benefitted either both, the bottom 40 percent and the wealthier 60 percent (as in the case of India) or more the wealthier 60 percent (as in the case in Indonesia) (see Figure 1.2). The challenge going forward, will be to gain a better understanding of what drove success in those countries where financial inclusion was pro-poor and pro-women and what policy implication can be derived for the Bank Group’s pursuit of its universal access goal by 2010.
Figure 1.2. Progress in Financial Inclusion 2011-14

Countries ranked by absolute numbers of adults with new account ownership

<table>
<thead>
<tr>
<th>Country</th>
<th>Account (age 15+, in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>200</td>
</tr>
<tr>
<td>India</td>
<td>150</td>
</tr>
<tr>
<td>Indonesia</td>
<td>100</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>70</td>
</tr>
<tr>
<td>Brazil</td>
<td>60</td>
</tr>
<tr>
<td>Nigeria</td>
<td>50</td>
</tr>
<tr>
<td>Iran, Islamic Rep.</td>
<td>40</td>
</tr>
<tr>
<td>Mexico</td>
<td>30</td>
</tr>
<tr>
<td>Malaysia</td>
<td>20</td>
</tr>
<tr>
<td>Kenya</td>
<td>15</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
</tr>
</tbody>
</table>

Countries ranked by relative changes to account ownership of the poorest 40 percent

<table>
<thead>
<tr>
<th>Country</th>
<th>Difference 2011 to 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>40</td>
</tr>
<tr>
<td>China</td>
<td>30</td>
</tr>
<tr>
<td>Iran, Islamic Rep.</td>
<td>20</td>
</tr>
<tr>
<td>Nigeria</td>
<td>15</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
</tr>
<tr>
<td>Mexico</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: IEG based on Findex data 2014.

Today’s Multidimensional Concept of Financial Inclusion

1.10 Today leading policy makers have settled on a broad-based concept of financial inclusion. Financial inclusion encompasses four basic financial services—savings, payments, credit, and insurance.\(^6\) To achieve full inclusion 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. In addition, 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. Finally, these services should be provided by a range of institutions to allow for choice and competition. Figure 1.3 shows 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).

1.11 “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 extending from those who use no financial services to those who use only informal services such as money lenders or family members, to those who use some mix of informal and formal services, and finally to those who exclusively use formal services.

1.12 Financial inclusion does not only refer to access, but also to the usage and quality of financial services.\(^7\) Even those with access to some formal financial service may be partially excluded by lack of access to other services. 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.

**Figure 1.3. The Four Dimensions of Financial Inclusion**

<table>
<thead>
<tr>
<th>Full Range of Financial Services</th>
<th>Quality of Products and Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic products are available</td>
<td>Provision with adequate quality</td>
</tr>
<tr>
<td>Payments</td>
<td>Stability</td>
</tr>
<tr>
<td>Savings</td>
<td>Availability</td>
</tr>
<tr>
<td>Credit</td>
<td>Affordability</td>
</tr>
<tr>
<td>Insurance</td>
<td>Convenience</td>
</tr>
<tr>
<td></td>
<td>Consumer Protection</td>
</tr>
</tbody>
</table>

- **Inclusiveness**
  - Everyone who can and wants to access, including:
    - The Poor
    - Women
    - MSVUOs
    - Rural

- **Choice and Competition**
  - Provision by a range of providers:
    - Private sector MFI
    - Commercial banks
    - Cooperatives
    - Gov. agencies and SOE Banks
    - NGOs

Source: Based on Global Partnership for Financial Inclusion 2012.

1.13 **This evaluation adopted this broad-based concept—with a special focus on the poor.** The evaluation’s primary attention was on payment, savings, credit and insurance as the key building blocks of the financial inclusion agenda. Assessment criteria for outcomes, in line with this framework, comprised not only access, but also usage and associated quality features, and the extent of choice and competition of the provision of financial services. From a supply perspective, it looked at all World Bank Group interventions that foster financial inclusion and hence went beyond formal financial institutions, for example by also including mobile money systems that are led by a mobile network operator (MNO). From a demand perspective, the evaluation also captured financial literacy and consumer protection, both of which relate crucially to information failures that may suppress market development. The evaluation’s focus was primarily on the poor, given the Bank Group’s poverty reduction goals, and in this respect applies a somewhat narrower concept.

**Rationale for the World Bank Group’s Interventions**

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

Figure 1.4. 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.

1.15 The Bank Group’s development interventions can be seen as working to shift the supply and/or demand curves, shown in Figure 1.4, to yield more formal services (to more households and micro and very small enterprises), potentially at lower prices. 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 facilitate the possibility of 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, the supply curve could also shift out.

1.16 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 improvements in macroeconomic stability) could also shift the
demand curve for financial services out, although these factors are generally outside the scope of this evaluation. An added benefit of these shifts is the increase in consumer surplus (not shown) to poor households and micro entrepreneurs 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.

1.17 Financial institutions that are commercially oriented—or that at least operate on a cost-recovery basis—quote transaction costs and risks as major barriers for providing financial services to the low-end of the market. The fixed cost of financial service provision\textsuperscript{11} makes provision to low-income segments of the population more difficult, as customers in these segments demand smaller and/or fewer transactions. Dispersed populations in rural areas also make traditional financial service provision through brick-and-mortar branching less commercially viable outside urban centers. In addition, risks might be prohibitively high to reach out to the low-end of the market. A large share of households and economic agents in developing countries operate in the informal sector, relying often on volatile income streams with limited or no record of their credit worthiness.

1.18 Several of the listed constraints can be seen as market failures. Markets may not provide the data to overcome the information asymmetry between providers and potential borrowers; suppliers of financial services may not know about the potential business opportunity or may not have any incentive to move towards the lower end of the retail business. Instead, they remain in business areas with more reliable margins, such as corporate banking—or, if at all active in the retail end, prefer to serve salaried workers. The size of the low-end market may also provide insufficient incentives for technological innovation, but rather deter first movers—even more so as private sector players would not directly benefit from the social and economic externalities of having the poor financially included.

1.19 The World Bank Group plays a role in alleviating these market failures by assisting countries build adequate financial infrastructure, such as credit registries or bureaus or regulatory frameworks and capacity, or by investing in greenfield MFIs that pioneer the provision of financial services in untested and riskier environments, potentially inspiring other investors to follow suit. The Bank Group can also play a role in lowering transaction costs by piloting innovative delivery models, such as mobile or branchless/agent banking or assisting countries in scaling up these channels. This could help demonstrating that through such new channels, the provision of services at the very low retail end is possible.

1.20 Similarly, the World Bank Group can also help overcome government failures. The poor—and in particular those working in the informal sector—often lack the formal documentation necessary for financial transactions. This problem is exacerbated with tighter know-your-customer (KYC) and regulations introduced in the past decade across the globe to fight money laundering and terrorism, in conjunction with lack of comprehensive
identification systems in many low-income countries. Prudential regulations may not be proportional with the risks MFIs encounter, preventing them from going downstream, or regulatory gaps may pose too high a risk to open a financial service business. Again, the Bank Group can play a role in addressing these government failures through policy dialogue, advice or technical assistance to build a suitable enabling environment for financial inclusion, including fit-for-purpose oversight regimes and codes for operational engagement for nonbank financial institutions, such as cooperatives, which are typically not subject to prudential regulations.

The World Bank Group’s Operational Engagement – A Snapshot

1.21 Before assessing the World Bank Group financial inclusion agenda at a more detailed level, the highlights of its operational engagement are set out. Operationally, the World Bank Group has deployed a wide range of services and products, through the World Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA). IEG identified 885 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 1.1). 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, due to larger average project size. MIGA’s relative share is only three percent of projects and 6 percent of value (measured by gross exposure) (Figure 1.4). For this evaluation, IEG identified the Bank Group’s financial inclusion portfolio in a coordinated manner with World Bank Group management; for a detailed methodology on these criteria and the method used, please see Appendix A.

Table 1.1. Coverage of Evaluation – Inclusive Finance Projects Approved/Committed FY07-13

<table>
<thead>
<tr>
<th>Institution</th>
<th>All Projects</th>
<th>Financial Inclusion Portfolio</th>
<th>% Financial Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank Lending (IBRD/IDA)</td>
<td>2,275</td>
<td>136</td>
<td>6</td>
</tr>
<tr>
<td>World Bank AAA (ESW/TA)</td>
<td>7,152</td>
<td>145</td>
<td>2</td>
</tr>
<tr>
<td>IFC Investments</td>
<td>2,024</td>
<td>236</td>
<td>12</td>
</tr>
<tr>
<td>IFC Advisory Services</td>
<td>1,611</td>
<td>322</td>
<td>21</td>
</tr>
<tr>
<td>MIGA Guarantees</td>
<td>197</td>
<td>25</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total Number of Projects</strong></td>
<td><strong>13,259</strong></td>
<td><strong>885</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>

Sources: World Bank and IEG.
Notes: AAA = analytic and advisory activity; TA = technical assistance.

1.22 Throughout the evaluation period, financial inclusion projects, as defined here, accounted for approximately 3 percent of total World Bank Group commitments (Figure 1.5). 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
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gross exposure value issued, and for the World Bank 2 percent of its total lending commitments. MIGA’s financial inclusion gross exposure is driven by two master contracts with the German-based ProCredit Holding Group, through 19 guarantees in 16 projects, for a total of $287 million, making up 2 percent of the institution’s total gross exposure for the period.¹⁴

Figure 1.5. 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.

1.23 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 the largest in absolute terms in 2010, their relative share in its portfolio was the lowest, accounting for almost 2 percent of total commitments. By contrast, IFC’s investment portfolio in inclusive finance decreased 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. Then in 2011, IFC commitments nearly doubled and grew by an additional 50 percent in 2012 as international financial markets stabilized, although the rest of the financial inclusion and overall portfolios decreased in terms of commitments (Figure 1.6). More details on the Bank Group’s portfolio are presented in subsequent chapters.
Is Financial Inclusion an Avenue Toward Prosperity for the Poor? A Literature Review

1.24 The factors preventing the poor from accessing financial services and how these services can help them escaping poverty have been extensively – but unevenly – studied. The last decades have seen a rapidly expanding literature that systematically tried to assess the impact of extending access to formal financial services among the poor. Some of these assessments have been undertaken in the form of randomized control trials (RCTs), which allow for a proper construction of a counterfactual. In the following, the findings of a broad literature review are summarized,\textsuperscript{15} covering systematic reviews, RCTs, and non-RCT studies from respected sources. Note that while the early literature focused mostly on credit, the more recent literature has expanded toward assessing the impact of increasing access to savings services, micro-insurance services and payment services.

CREDIT

1.25 The initial expectation of microcredit being able to pull millions out of poverty by providing them with credit has not been fulfilled. There is a consistent pattern of modestly positive, but not transformative, effects of microcredit on the poor. Evidence on the effects of microcredit has been mixed and the results seem to depend very much on the characteristics and circumstances of borrowers and the purpose of the loans. There is some evidence of an impact on business creation, but this does not necessarily translate into higher consumption
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or income. Only a small share of business owners benefit through growth. (Banerjee, Karlan, and Zinman 2015)

1.26 After all, credit might not be the most binding constraint of micro entrepreneurs — and most of them never intend to grow. The literature offers a range of explanations why the impact of microcredit is so limited. First, microentrepreneurs might not be credit constrained (Banerjee 2013); or other constraints within the business environment might be more binding, such as bureaucratic “red tape” — for example getting a license to operate — or simply access to physical infrastructure such as energy (Banerjee, Karlan, and Zinman 2015). Second, micro-enterprises’ capacity to grow might be limited. Initial returns, achieved through access to credit, might be high (de Mel et al. 2008) but rapidly decreasing (Banerjee and Duflo 2007).

1.27 The root cause of this be the fact that many microenterprises are set up because of a lack of alternative employment options in the formal sector. There is evidence that such “subsistence entrepreneurs” make up the great majority of microenterprises. This indicates that a large share of microenterprise owners may be running their business to make a living while they are looking for a wage job and may not have plans to expand their businesses (Emran, Morshed and Stiglitz 2007).

1.28 A large part of borrowers use credit for consumption rather than investment purposes, as documented, for example, by Johnston and Morduch (2008). About 50 percent of loans given for business creation in rural Mongolia were actually used for household purposes (Attanasio et al. 2015). This is in line with evidence reported by Karlan and Zinman (2010) for the Philippines on diversion of entrepreneurial credit for household purposes.

1.29 Overindebtedness can bring substantial harm to the poor and to financial institutions. For the poor, overindebtedness can result in an unsustainable spiral of repayment, with consequent damage to investment in their microbusinesses or to household consumption and welfare. Households that become over-indebted may have difficulty reintegrating into financial systems long after their immediate debt problem is resolved. For financial institutions, overindebtedness of clients is a threat to stability and sustainability, and can damage the reputation of service providers. The Andhra Pradesh microfinance crisis (addressed in chapter 4 in detail) shows the dangers of political overreaction when overindebtedness becomes a public concern. An appropriate regulatory and institutional framework, including consumer protection, industry code of conduct, and credit information, can help to avoid overindebtedness and encourage the development of sustainable financial services.
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Savings

1.30 Studies assessing the impact of providing access to savings products are, on average, more positive compared to the impact studies on microcredit. Higher investment among female, though not male entrepreneurs that gain subsidized access to savings account have been documented in rural Kenya (Dupas and Robinson 2013a), for example. In general, literature on savings is not as abundant as for credit; hence this more positive overall assessment of the impact of savings builds on less robust evidence.

1.31 However, the literature also shows the need for very specific products and techniques to overcome constraints of low-income households and micro-entrepreneurs. Generally people want rewards sooner rather than later. They have the tendency to increasingly choose a smaller-sooner reward over a larger-later reward, that is, they have so-called “hyperbolic preferences”. This makes saving difficult for most of us – and in particular for the poor who in addition face intra-household allocation decision given the multitude of priorities they need to attend to. Commitment devices have proven to help overcoming these hyperbolic preferences. For example, people using a lockbox with a key increased preventive healthcare spending, while clients using the lockbox without a key did not. (Dupas and Robinson 2013b). In addition, Malawian cash crop farmers using a commitment savings product increases investment and crop output by 21 percent, with an increase of 11 percent in consumption, while regular savings products have no such effect (Brune et al. 2013).

1.32 A systematic review confirmed the need for innovative design. Pande and others concluded that “innovative design of new savings products that increase the supply of savings and increase demand for savings by helping people address behavioral challenges were found to increase income at least in the short run”… and can increase income by allowing households to accumulate assets (Pande and others (2012), page 1).

Micro Insurance and Payment Systems

1.33 The evidence on micro insurance suggests positive effects on farmers and entrepreneurs, though limited take-up might limit the benefit of offering such services. Results were mixed from the introduction of weather insurance, for example, in India, where farmers shift toward more rain-sensitive crops that are riskier but also more profitable (Cole, Gine, and Vickery 2013). Index-based drought insurance products showed positive effects in rural Kenya; specifically, they show that insured households are on average 36 percentage points less likely to anticipate drawing down assets, and 25 percentage points less likely to anticipate reducing meals upon receipt of a payout (Janzen and Carter 2013).

1.34 For the poor, managing their risks may matter even more than providing liquidity. To gauge the relative importance of credit and risk constraints, in another study, farmers were randomly assigned to receive cash grants, grants of rainfall insurance or opportunities to buy
rainfall insurance. The authors find not only high demand for rainfall insurance, but also larger effects of insurance take-up on agricultural investment than of the cash grants, implying that in this context, risk cost constraints are more binding than resource and liquidity constraints (Karlan and others 2013).

1.35 **Initial results on the effects of payment systems are quite positive.** They show that the use of more effective payment methods can not only reduce costs and connect more people to national and international payment systems, but also allow more effective inter-personal exchange and risk sharing across space and over time. However, research on the impact of expanding digital payment services is still in the early days, as this is a relatively recent product. Several research evaluations are currently on-going, with results to be expected in the near future. One important aspect will be to gauge whether access to digital payment services increases individuals’ likelihood to participate in the formal economy and increases microenterprises’ investment and profitability.

1.36 **Global remittances, a special form of payments to a recipient at a distance, typically by migrant workers, have been recognized as an important source of poverty reduction.** The volume of official international remittances is estimated to exceed official aid flows by a factor of three (Ratha 2013). Remittances were found to reduce poverty in the developing world: a 10 percent increase in per capita official international remittances is associated with a 3.5 percent decline in the share of people living in poverty (Adams and Page, 2005).

1.37 **Reducing high transaction costs of remitting money to labor-exporting countries, has been suggested as a policy measure** by a range of studies. High transaction costs resulting from lack of competition, regulation, and/or low levels of financial sector performance in labor-exporting countries act as a type of regressive tax on international migrants, who often tend to be poor and to remit small amounts of money with each remittance transaction. Lowering the transactions costs of remittances will help to increase the poverty-reducing impact of international remittances (Adams and Page 2005). A more recent summary of international research indicates that remittances not only improve income for many poor families, but also “are associated with greater human development outcomes across a number of areas such as health, education, and gender equality.” (Ratha 2005)

**GENDER**

1.38 **The gender dimension is critical to the discussion of financial inclusion, both in terms of access to financial services across male and females and in terms of female empowerment as an important outcome in itself.** Females are, on average, less likely to have access to formal financial services than males. At the same time, a large share of self-employment in developing countries is among women and thus in greater need of access to formal financial services. (Demirguc-Kunt, Klapper and Singer 2013). Despite recent progress
in financial inclusion rates in general, the gender gap has not narrowed: While the account penetration increased by 13 for both men and women between 2011 and 2014, the gender gap remains a steady 9 percent (Demirguc-Kunt, Klapper, Singer, and Van Oudheusden 2015).

1.39 **Beyond the lack of access to formal financial services by women, there are several other reasons why the microfinance movement has focused on women.** It has often been argued that credit to female borrowers has more direct impact on household welfare than credit to male borrowers as they care more about children and family. However, there is a trade-off as documented by Kevane and Wydick (2011); women of childbearing age face greater time constraints due to family commitments and are less likely to expand employment in their microenterprise with credit than male microentrepreneurs or older women. Another reason is that women are often restricted from access to formal financial services due to intrahousehold restrictions, although this might also imply tailored solutions that protect women against having to share credit or savings within their household. Another supplier-focused argument is that female borrowers constitute less of a credit risk, as they are less mobile than men and often more conservative in their investment decision. Women typically have higher repayment rates than men do.\(^{17}\)

1.40 **There is some evidence on differential effects across gender in terms of microfinance interventions.** On the one hand, interventions to increase savings are often more successful for women than for men. On the other hand, some interventions are less successful for women than for men, given intrahousehold and other constraints to women. This implies that such interventions have to take into account context-specific constraints faced by women in order to be successful.

1.41 **Financial inclusion can also have a positive impact on female empowerment.** However, the evidence reported so far has been rather mixed, which might have to do with products and services not being appropriate to address intrahousehold conflicts. Yoong and others (2012) conclude in their systematic review that there is no conclusive evidence for a positive impact of microcredit on female empowerment.

**Important Policy Implications for the World Bank Group**

1.42 **Innovative delivery channels and tailored products can make outreach to low-income and rural population segments commercially viable.** The take-up of these products, however, is often below expectations. Differentiating between various financial services is crucial. For credit, there seems no clear-cut case that access to credit has long-term and transformational benefits, at least on average. A large share of loans is for consumption and not entrepreneurial purposes—and, while there is nothing wrong with this, it has different repercussions for both expected micro and macro effects. However, there is some evidence that a certain share of the targeted micro-entrepreneurial population can benefit quite a lot. A
small number of more growth oriented entrepreneurs and enterprise will use access to finance to expand their businesses. There is thus a need for more tailored and context-specific approaches that takes into account other constraints.

1.43 **In addition, there are arguments supporting a move up the firm ladder towards small enterprises.** SMEs might have more potential to be transformative and can create jobs. Different groups of borrowers have to be targeted with different techniques (group versus individual lending) and different products and it is to be expected that different types of institutions will be targeting different sectors and segments of the enterprise population. For example, greater flexibility of loan terms is only consistent with individual and not necessarily with group loans.

1.44 **Facilitating access to savings products on a broad scale seems more desirable and is important for the World Bank’s product mix.** It can also have important repercussions for entrepreneurial behavior. Where access to external finance is limited, internal finance becomes more important and constraints to the effective use of internal finance have to be addressed. It is important in this context to take into account behavioral and intrahousehold constraints. Offering formal financial services can help individuals (especially those with weaker decision power in the household, like females) to shift consumption patterns and even invest more in their micro-businesses. Given the Bank Group’s tools, the question arises how it can facilitate access to savings and foster innovative savings products – important to facilitate sage amongst the poor as the literature points out –, particularly in the very low end of the retail market where—as we will see later—local resources mobilization is likely to be costly; on top, transforming MFIs into deposit-taking institutions requires most sophisticated regulatory frameworks and oversight mechanisms.

1.45 **The best way to start the entry of the poor into the formal financial system may be with payment services, for a variety of reasons.** In many contexts it is also often the most immediate financial service needed by many low-income individuals and households. The importance of global remittances and their effect on a range of developmental outcomes exemplifies this point. In contrast, analysts have been struggling with the question of how to move beyond payments to other financial services—a question the World Bank Group also has to answer in light of its Universal Access Goal 2020. Current thinking is that payment accounts put the “plumbing in place” through which water can later flow, but a critical question is how to turn on the tap once the pipes are laid. Or is the Bank Group satisfied with the benefits of only payment services?

1.46 **There might also be important indirect and systemic effects from financial deepening and liberalization, in addition to direct benefits of access to financial services for the poor.** If financial deepening reduces the cost of credit and improves allocation of scarce capital across the economy, this can have an impact on the structure of economy. While there
is no firm evidence that direct access to credit is necessarily welfare improving for its recipients, there is some evidence that financial deepening can reduce income inequality and poverty alleviation through indirect channels. Financial deepening can also contribute to employment growth, especially in developing countries. Financial liberalization and the consequent increase in access to credit services can explain the fast GDP per capita growth, rapid poverty reduction and initially increasing but then decreasing income inequality (Pagano and Pica 2011). Underlying these developments are occupational shifts from the subsistence sector into the intermediated sector and accompanying changes in wages.

1.47 Instead of providing microloans directly to microentrepreneurs in an effort to increase financial inclusion, financial deepening make the overall financial intermediate more effective. This in turn allows the private sector to grow and create jobs. Such salaried jobs are then likely to lift the poor out of poverty—and may ultimately also provide them with bank account. Financial deepening, rather than financial inclusion, has led to decreases in rural poverty, following financial liberalization in 1991 in India (Ayyagari, Beck, and Hoseini 2013). They also find that financial deepening reduced poverty rates among the self-employed, and also supported an inter-state migration from rural areas into the tertiary sector in urban areas.

1.48 Therefore, microcredit is not necessarily the most important policy alternative to reap the benefits of financial sector reform for poverty alleviation. By changing the structure of the economy and allowing more entry into the labor market by previously unemployed or underemployed segments of the population, financial deepening (more efficient financial institutions and markets) helps reduce income inequality and poverty. By doing so, financial deepening can help achieve more inclusive growth and also help overcome spatial inequality in growth benefits. It is thus important to understand that the effects of financial deepening on employment and poverty alleviation do not necessarily come through the “democratization of credit” but rather a more effective credit allocation. Given the Bank Group’s Universal Access Goal 2020, has financial inclusion been promoted to the detriment of traditional financial sector deepening which tend to attract less public attention but may be equally or even more effective in lifting people out of poverty?

1.49 For the poor to benefit directly from financial sector deepening and broadening it is important to look beyond credit to other financial services that are needed by the poor, such as simple transaction or savings services. While it should be a goal to achieve access to basic transaction and savings services for as large a share of the population as possible to thus enable them to participate in the modern market economy, the agenda for boosting access to credit should focus on improving the efficiency of this process, replacing access through political connection and wealth with access through competition. Unfortunately, the former kind of access is still too common in many developing countries. By channeling society’s
resources to the most credit-worthy enterprises, the financial system can enhance inclusive growth.

1.50 There is also a case for looking beyond microfinance institutions to a broader set of financial institutions, including banks and non-bank mobile network operators. Technology has revolutionized the economics of retail banking, which suggests looking beyond traditional financial institutions to new delivery channels for financial services. As the type of service provide diversifies, tools to assess the level of financial inclusion (such as Findex) are factoring these trends in. To what extent a person having an account with a mobile network operator that is not linked to a bank account is considered “financial included” is still up for debate.

1.51 Despite intensive research efforts in the recent two decades, there are still important knowledge gaps. Given the type of research methods applied and the focus of many studies, there is still a considerable area deserving more in-depth assessment, summarized in Box 1.1. The Gap Map presented in Box 1.2 discusses the focal areas of existing impact studies and systematic reviews: microcredit has thus far received most of the attention accordingly with many studies reporting on impacts on incomes, health, consumption and education of the poor. That Gap Map make also obvious where gaps in research exist: For example, saving has attracted a lot less research than credit. Payments are even less researched, only lagged by insurance where very few studies exist. Overall, this patterns is also reflected in the summary of the literature review commissioned for this evaluation.

Box 1.1. Financial Inclusion Research Gap Map and Questions Going Forward

IEG’s review of all International Initiative for Impact Evaluation (3ie)-listed impact evaluations and systematic reviews on financial inclusion indicates that microcredit is fairly well studied, savings more modestly studied, and payments, insurance, financial literacy and consumer protection represent major gaps in rigorous understanding (see the figure).

The challenge on assessing the impact of financial inclusion will be to reconcile micro-interventions and macro-impact. The first macro-level assessments of microfinance expansion have been undertaken. This “upward trend” in microfinance evaluation towards the macro mirrors a “downward trend” in the finance-growth literature toward the micro, which started out with aggregate regressions, towards country-level, industry level and ultimately firm-level studies, with identification strategies getting more refined. The micro- and macro literature on finance and development have developed relatively separate, so bringing them closer together will be a challenge for the future.

Another important area is the role of governments. Microfinance addresses very specific market failures; to what extent can we rely exclusively on NGOs and donors to overcome them? There has been a trend towards the visible hand of government, that is, market-friendly interventions that try to address market failure without creating government failures due to rent seeking, distortions and inefficiencies. Such interventions include providing infrastructure platforms and covering fixed costs to overcome first-mover and coordination problems.

Inter-generational effects have not been assessed sufficiently. Most studies—RCTs in particular— have a relative short time horizon, typically of 2-3 years. As the above-mentioned literature review shows, effects often do not relate directly to enterprise growth, but rather to (i) better education for children as access to financial services, including credit, allows for more educational options; (ii) mitigating risk as funds can be used to finance unforeseen events such as accidents or illnesses without the need to sell down assets; and (iii) access to health care. These benefits may only show up later than
in 2-3 year scope of most studies – likely an entire generation later.

**Studying the enablers that allowed some of the microenterprises to grow.** Credit was successful, albeit only for a minority of entrepreneurs. Generally only a fraction of microentrepreneurs grew and allowed their owners to move up the ladder of prosperity, eventually turning their business into SMEs and employing other people, potentially providing them salaried jobs otherwise not available. The circumstances under which micro-entrepreneurs tend to be more successful have yet not been studied in sufficient detail.

**Can the provision of activity-tied credit and insurance services hold back transformational changes** by tying households to their current activity? Is it better to provide activity-neutral services, including savings, payments and consumer credit? This is also still an open question to be discussed.

### Figure: Gap Map of Available Impact Evaluations

<table>
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<td>1</td>
<td>3</td>
<td>6</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
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<tr>
<td>Payments</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Agricultural/Weather</td>
<td>1</td>
<td>2</td>
<td></td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Insurance</td>
<td>1</td>
<td>2</td>
<td></td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>1</td>
<td>2</td>
<td></td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Consumer Protection</td>
<td>1</td>
<td>2</td>
<td></td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>2</td>
<td></td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>


*Note:* Grey circles are impact evaluations and blue circles represent systematic reviews; numbers = existing studies

### Global Industry Trends

1.52 **One of the best available data sources for analyzing industry trends in financial inclusion is the Microfinance Information Exchange (MIX).** MIX\(^\text{19}\) receives periodic financial statements and various operational metrics voluntarily from a set of microfinance institutions in developing countries. Particularly in recent years, the quality of MIX data has steadily improved and now captures the vast majority of MFIs, including banks and non-bank MFIs, nongovernmental organizations (NGOs), credit unions and rural banks (Cull and others 2013). However, the use of MIX data comes with a caveat as it may underestimate the efforts of traditional formal banks that may not report to MIX, even though many do.

1.53 **Other World Bank Group efforts on financial inclusion, for example on policy dialogue and technical assistance, are not centrally tracked and hence cannot be assessed in a comprehensive manner.** It is, however, stressed at this point, that large efforts in financial
inclusion have been underway in the area of thought leadership and creating commitment by several bodies in the international development arena (see Box 1.2). In addition, a broad range of multilateral and bilateral agencies offers assistance on policy and legal issues as well as capacity building. A global overview of these activities, however, is difficult to obtain. The following paragraphs hence summarize an IEG analysis of global trends in microfinance, based on MIX data of the last 10 years.

1.54 **The MFI industry is comprised largely of NGOs and non-bank financial institutions (NBFI).** NGOs account for 31 percent and NBFI s for 29 percent of all MFIs, followed by credit unions and cooperatives with 17 percent and banks with 10 percent; rural banks account for a very small part. However, the importance of the respective forms of MFIs varies substantially across region: Africa is unique in the dominance of cooperatives, whereas East Asia and Pacific, Latin America and the Caribbean, the Middle East and North Africa, and South Asia Regions all share a dominance of NGOs. Europe and Central Asia is the only region where NBFI s dominate (all in terms of numbers).

1.55 **The MFI industry grew both in terms of numbers – and even more dramatically in terms of assets.** Although the number of MFIs appears to level off, assets grew almost exponentially (Figure 1.7). A significant part of the increase in 2010 was due to Harbin Bank (China) entering the MIX data reporting with $19 billion in assets, by far the largest reporting institution. This also explains the strong growth of MFI assets in the East Asia and Pacific Region in recent years.

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**Box 1.2. Financial inclusion 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, had 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 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.

*Source: IEG.*
East Asia and Pacific, together with Latin America and the Caribbean, holds most MFI assets, whereas Africa and South Asia hold the fewest. At the institutional level, the size of assets per MFI reflects somewhat the overall asset distribution by region, that is, East Asia and Pacific and Latin America and the Caribbean have the largest MFIs (most assets per institution), together with MENA; Africa has the smallest MFIs. When looking at numbers of MFIs, however, the order is different. Although again Latin America and the Caribbean leads in terms of number of MFIs, it is followed this time by Africa with relatively many—but small—MFIs (Figure 1.7), the majority of which are cooperatives.

South Asia, despite having one of the smallest MFI industries, has by far the highest number of borrowers with the smallest average loan size. South Asia has roughly 50 million micro credit borrowers, with Latin America and the Caribbean the next largest at only 20 million and East Asia and Pacific with about 14 million. Most of these 50 million borrowers took out very small loans in South Asia, averaging about $154, considerably smaller than in Latin America and the Caribbean with an average loan size of $1,071 and even Europe and Central Asia where loans are the largest with $1,862.

In general, there are more borrowers than savers accounted for globally, that is, 96 million vs 79 million, respectively. This partly also reflects the fact that many of MFIs are non-deposits taking institutions. It may also reflect the fact that deposit taking requires more sophisticated regulatory frameworks than the provision of credit. In addition, credit is a more lucrative business for MFIs and comes with a “built-in” commitment mechanism, that is, borrower have to pay back. Given the challenge that people – and in particular poor people –
face with regard to hyperbolic preference, credit may well have served as a commitment savings device, at an extra cost.

1.59 **Globally, average loan size grew over time.** The average loan size was $192 in 2002 and grew to $584 in 2011. This could be explained by a range of factors, including that many MFIs operate with “dynamic incentives”, that is, offering small loan amounts initially and allowing those amounts to grow once the borrower has proven credit worth and paid back the initial loan. This leads to continuously rising average loan volume. It could also be seen as “mission creep,” where initially the MFIs industry catered (or tried to) to the poor, but with the increasing pressure on self-sustainability, had to grow it average loans size to remain profitable, leaving the poor behind.

1.60 **Nominal yields, a good proxy for interest rates, exceed 30 percent per year for about half of the MFIs (47 percent).** Yields from 20 to 30 percent are found with about a third of MFIs (31 percent) and yields of above 30 percent for about half of all MFIs (47 percent). Only a share of 21 percent had yields of 20 percent or lower (Figure 1.8a). Real yields (adjusted for inflation) are distributed in a similar fashion, but by about 10 percent lower.

1.61 **Over the time nominal yields decreased to some extent, from 33 percent to 26 percent** (Figure 1.8b). This can be attributed to a range of factors, including the global decline in inflation over time and the improved credit quality of the countries, but also the changes in the nature of operations of MFIs, which shifted over time to providing larger loans, as we have seen above. Given the fixed costs associated with origination and supervision, regardless of size, larger loans should provide lower yields and remain profitable.

![Figure 1.8. Microfinance Yields](source: MIX)
1.62 These global trends form the backdrop against which World Bank Group interventions happened. The Bank Group operated during a time of dramatic growth of the MFI industry. Although the provision of credit dominated, access to savings accounts has been on the rise. This is particularly promising as savings tend to have higher welfare enhancing potential than credit. It will be interesting to see to what extent the Bank Group fostered financial services beyond credit in its financial inclusion agenda. Further, Bank Group support reaches MFIs markets that are dominated by NGOs, NBFIs, credit unions, and cooperatives. Not all these are obliged to operate on a self-sustaining manner, shedding particular emphasis on the Bank Group’s stance on “sustainability” in financial inclusion. How well has the Bank Group balanced the trade-off between targeted and time-bound versus broad based open-ended subsidies? For IFC, this may indicate that it is trying to open shop in countries that thus far were mainly served by NGOs—a challenge to IFC’s model of self-sustaining MFIs. And finally, it will be interesting to see the effect of World Bank Group support to MFIs and its impact on average loan size and yields/interest rates, both proxies for reaching the poor and affordability for the poor.

Evaluation Design

1.63 This broad-based concept of financial inclusion together with the rationale for the World Bank Group’s engagement forms the basis for this evaluation. In the context of this evaluation, financial inclusion refers therefore 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 to choice (offer of service by a range of institutions). The World Bank Group supports financial inclusion through improvements of markets mechanisms by overcoming limitations to demand and supply so more and better financial services are provided to the poor (Figure 1.3).

1.64 Figure 1.9 shows these two concepts together, reflecting the supply and demand issues described above and embedding them into the theory of change (or results chain) that this evaluation has used. 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).

1.65 These outputs are reflections of the supply and demand side issues described above, 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 micro and very small enterprises. Such improved service provision should ultimately improve the livelihoods of poor people, directly or indirectly, through an array of channels including improved education, health or agriculture, and ultimately 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.

1.66 This results chain is based on assumptions, including sufficient macro stability and government commitment and a minimum of institutional and human capacity paired with basic financial infrastructure. In cases where these are not given, the Bank Group typically can address these either through complementary programs (for example to address macroeconomic and fiscal issues) or through components within financial inclusion projects (for example by building the needed institutional capacity for banking oversight or creating enhanced government commitment).

Figure 1.9. Theory of Change for World Bank Group Financial Inclusion Interventions

Source: IEG.
Note: L/C = line of credit.
Chapter 1

Do Financial Services Help Fight Poverty?

Evaluation Questions

1.67 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 was 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 appendix C.

1. **Relevance.** 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?

2. **Effectiveness of policy reforms.** Has the World Bank Group been effective in its systemic interventions to create an enabling environment?

3. **Effectiveness of direct support to MFIs.** 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?

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

5. **Work Quality and Coordination—Working as One World Bank Group.** Is the World Bank Group effectively managing factors within its control? Are the three World Bank Group institutions leveraging synergies through adequate coordination and sequencing of interventions?

Scope

1.68 This evaluation covers World Bank Group inclusive finance interventions during the FY07–13 period. It covered 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 focused on projects committed, approved, or issued during FY07-13. For the assessment of results, IEG focused on projects that exited during FY07-13. That includes projects that were “closed” (for World Bank) or that 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.
The large majority (70 percent) of the evaluated interventions are relatively young, that is, approved FY06-13. “Ongoing” projects, that is, those approved FY07-13, that have not yet reached closure/operational maturity, were included to ensure relevance and timeliness of IEG’s conclusion and were analyzed 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 were considered to assess as to whether the Bank Group program addresses strategic priorities at the country level and is hence relevant. Table 1.2 provides an overview of the World Bank Group projects and interventions covered. The activities of the World Bank’s Development Economics Department and of the Consultative Group to Assist the Poor (CGAP) were not specifically evaluated, but the team was attuned to apparent gaps in knowledge, research and advocacy evidenced in the course of the evaluation, and such gaps are pointed out as adequate throughout the report.

The focus of this evaluation is on payments, savings, credit, and insurance. Neighboring concepts of agriculture finance or risk mitigation for the poor through sovereign disaster risk policies were not be subjects of this evaluation, as they are either driven by different context factors, or only indirectly affect the poor, or are geared mainly toward the middle class. Credit to the rural poor, including those to farmers, is, however, covered in this evaluation. 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 1.2. Coverage of Evaluated Material – Inclusive Finance Projects Approved FY07-13

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Financial Inclusion Portfolio</th>
<th>Evaluated Financial Inclusion Projects</th>
<th>Percent with Evaluation</th>
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</thead>
<tbody>
<tr>
<td>World Bank lending (IBRD/IDA)</td>
<td>213</td>
<td>99</td>
<td>45</td>
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<tr>
<td>World Bank AAA (ESW/TA)</td>
<td>142</td>
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<tr>
<td>IFC investments</td>
<td>274</td>
<td>65</td>
<td>21</td>
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<tr>
<td>IFC Advisory Services</td>
<td>339</td>
<td>91</td>
<td>24</td>
</tr>
<tr>
<td>MIGA guarantees</td>
<td>25</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Number of Projects</strong></td>
<td><strong>993</strong></td>
<td><strong>235</strong></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>

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.

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 breadth of these markets and factors of governance and transparency. These factors are important, but interventions targeting these other factors were
not 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 Methodology**

1.72 The methodology to answer the evaluation questions included: (i) a review of policy and strategy documents at country and corporation levels, (ii) a portfolio review of World Bank Group projects and activities, and (iii) 15 country reviews of which 10 were desk reviews based on portfolio data and Country Assistance Strategy Completion Report Reviews (CASCR Reviews), and 5 purposively selected country case studies that included a field mission by IEG evaluation team members; and (iv) a comprehensive literature review. The approach was nonexperimental, combining qualitative and quantitative methods and drawing 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). Using the MIX data allowed IEG to 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. Results are presented throughout the report.

1.73 At the country level, the coherence of the solutions developed by the World Bank Group was covered through country reviews. IEG carried 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 issues of complementarity, sequencing, and synergies.

1.74 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 CASCR Reviews were hence used to assess the question whether the Bank Group has mobilized the best solutions and personnel in combinations appropriate to country needs.

1.75 To this end, IEG conducted 15 desk-based reviews of which five were developed into in-depth country case studies involving field missions which, inter alia, allowed gathering information on effects to the beneficiaries. The selection of country cases was first be criteria-
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driven with subsequent purposive selection of field-based cases. For the selection criteria and method, see Appendix C.

1.76 The multiple country case studies design allowed 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. The selected 15 countries represent a cross-section of both credit-dominated portfolios (the “common case”), for example those of Morocco, Lebanon, and Brazil, as well as portfolios with a relatively high share of interventions that aimed at broadening the financial inclusion agenda to also cover payments, savings and insurance (the “critical case”), for example, India, Indonesia, Mexico, or Tanzania. These two types of cases allowed investigating the requirements for broadening the financial inclusion agenda as well as success factors. Of these 15 countries, five were chosen for additional field studies, based on a purposive selection: Azerbaijan, India, Indonesia, Mexico, and Tanzania.

Figure 1.10. Focus of Bank Group Financial Inclusion Interventions in Selected Country Cases

Source: IEG portfolio analysis at time of selection.
Notes: Boxed countries were selected for field based cases.

1.77 The case study design also allowed testing hypotheses for policy-focused interventions and finance-focused interventions. These 15 countries provided 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 five field-based case studies were 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 enabled to test hypotheses in parallel for upstream and downstream countries (Figure 1.10). Contribution analysis was used in field-based country cases to help identify the extent to which World Bank Group interventions actually contributed to the observed development results.

1.78 This report is structured to allow understanding the World Bank Group-wide engagement for financial inclusion. Instead of presenting findings in isolated chapters for each World Bank Group entity, this report follows the logic of the financial inclusion model. First, for a financial inclusion intervention to be useful to a country, it must be relevant given the country’s development priorities. Hence, it starts with a discussion of the relevance of Bank Group support. Typically, a minimum of an enabling environment must be available for financial inclusion to materialize; hence the report then assesses the World Bank Group’s effectiveness in assisting countries to build up the right policy framework and enabling environment.

1.79 This analysis looks across all institutions engaged in the World Bank Group “upstream” response—that is, in efforts aimed at policy and systemic institutional reform. The analysis revealed that the institutions active in this space are mainly World Bank and to some extent IFC advisory services. Then, in chapter 4, the effectiveness of directly supporting MFIs is assessed. This typically involves World Bank lending, IFC advisory and investments. The support directed at MFIs—as opposed to creating the enabling environment for them to operate—is collectively referred to “downstream” support. For IFC investments and advisory services, such downstream interventions are their main activity field. Gender is an important dimension in financial inclusion and findings will be presented throughout the report (Box 1.3).

**Box 1.3. Gender in Financial Inclusion**

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 microlenders, 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 and even today, in 2015, the gender gap remains unchanged at 9 percent despite progress made overall.

According to the latest Findex data (2014), 58 percent of women and 65 percent of men worldwide have an account at a formal financial institution. Looking at only developing countries, the gender gap is wider: 59 percent for men and 50 percent for women. 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) the financial access gap is significantly higher for women, up to 40 percent.

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 on owning 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.

Sources: IEG. Demirguc-Kunt, Klapper, Singer and Oudheusden. 2015 and Demirgüç-Kunt, Klapper, and Singer 2013