3. Policy Reforms That Support Financial Inclusion

Highlights

- The World Bank Group has been able to substantially increase its impact in advancing the policy agenda for financial inclusion through its global partnerships. Partnerships clearly extend the reach, resources, and influence to promote access to financial services by the poor and microenterprises.
- Partnerships require resources, can dilute the voice of the World Bank Group, inhibit "branding" or taking credit, and may sometimes pursue goals not squarely aligned within the Bank Group's own strategy.
- With regard to the World Bank Group's country-level engagement on policy reform, the approach currently taken to identify and tackle constraints to financial inclusion is not sufficiently systematic nor comprehensive.
- IFC advisory interventions that foster the establishment of important elements of an enabling environment are relevant and often crucial. Such projects frequently benefited from high-quality analytical work and stakeholder assessments and were often executed in sound collaboration across the Bank Group.
- The lack of an adequate M&E system made attribution of success to IFC interventions difficult.

3.1 **Financial inclusion requires an appropriate policy framework and regulatory environment.** To make financial inclusion happen, country governments need commitment, strategies, and tools. While this is needed for any sector reform effort, it applies even more so for financial inclusion. Financial inclusion "pushes the boundaries" of traditional banking inasmuch as it tries to reach out to the low end of the retail market. This brings along a wide range of challenges both for the public sector providing the regulatory environment (for example, in terms of installing effective supervision and oversight mechanisms or establishing prudential as well as non-prudential norms for the various service providers) and for the private sector as investors face very small transactions amounts making business merely sustainable in many cases.

3.2 **This chapter discusses the World Bank Group support to policy reforms, through both international partnerships as well as through its country-level engagement to create adequate regulatory frameworks.** The Bank Group substantially contributes to global

knowledge, standards and policy norms. International partnerships are important means to nourish government commitment, developing strategies and sharing knowledge and innovative approaches. These are often important precursors or inputs to client countries' financial inclusion agendas. The World Bank Group has played a vital role in a range of international partnerships, using its convening power and expertise to advance the financial inclusion agenda. Often these efforts go unnoticed as they are not framed in an official program. Hence this evaluation tries to shed light on the role and effectiveness the Bank Group had in this space. This chapter further analyses the role and effectiveness the Bank Group played in shaping the enabling environment—and here in particular the regulatory environment—in client countries through its lending and advisory/AAA work.

Financial Inclusion through Global Partnerships

3.3 **The World Bank Group uses partnerships as a central instrument for implementing its financial inclusion work**. At the 2015 Spring Meetings, President Kim stated that, to promote financial access, "The World Bank Group's role is to convene and energize a coalition of partners -- and also to step up our work."[31] Some of these are the direct partnerships formed with governments of low and middle income countries, organizations and businesses in the context of country strategy, programs and projects. Others can be specific partnerships with a major international donor, such as The Partnership for Financial Inclusion, which IFC has forged with MasterCard to develop agent banking and mobile financial services in sub-Saharan Africa. A second important example of a specific partnership is in the arena of knowledge generation and sharing, and provides a resource used extensively in this evaluation. The Global Findex provides an important set of indicators for 148 countries on financial inclusion based on information collected in partnership with Gallup World Poll, designed and overseen by the World Bank Development Research Group, and funded by the Bill and Melinda Gates Foundation.

3.4 **Beyond this, the World Bank Group uses a number of international and global partnerships through which it plays a role in expanding financial inclusion through knowledge generation and sharing, standard setting, policy guidance,** piloting and sharing innovative approaches and a host of other initiatives. Partnerships are a key means to extend reach and presence, and very senior IFC and World Bank staff are deeply involved in several of them. They can be a means to transmit knowledge World Bank Group has gained through its own experience and research or gain knowledge through research, piloting and consultation.

3.5 **Although IEG cannot evaluate these partnerships because they lack adequate results frameworks and evidence, it is clear that these partnerships form an essential part of the World Bank Group's efforts both to promote universal financial access by 2020 and longer-**

term aims to achieve universal financial inclusion. Partnerships they require resources and senior staff of the World Bank Group, can inhibit or dilute its own "branding," and may at times pursue goals or methods not squarely aligned the Bank Group's own strategy. However, it is clear the World Bank Group values partnerships and that they can mobilize tremendous resources and commitment, and help contribute to or complement the World Bank Group's own programs and projects and supplement its capacity.

CONSULTATIVE GROUP TO ASSIST THE POOR

3.6 **With the creation of CGAP in 1995, the world got its first global partnership of leading organizations seeking to advance financial inclusion of the poor**. Its activities, aimed to find "innovative solutions to address barriers to financial inclusion," include "high-level advocacy, research and knowledge sharing on client demand, support for product and business model innovation, policy advice, and guidelines and standards for donor effectiveness." Much of its activity is focused on generating and sharing "open knowledge, open data, and related practical insights of a public good nature" and "private and public experimentations that demonstrate viable product and business model innovations."

3.7 **CGAP is currently a partnership of 34 leading organizations.** Its Council of Governors is chaired by the World Bank and is comprised of members who finance its core program with unrestricted funds. The World Bank also acts as financial administrator of trust funds it established to support CGAP activities. Its executive committee advises the CG and is currently composed of representatives of the World Bank, the Japanese International Cooperation Agency, the European Investment Bank, the Norwegian Agency for Development Cooperation (NORAD), IFAD, the MasterCard Foundation, and two microfinance institutions -- M-KOPA and Absa.

3.8 **Hosted at the World Bank headquarters, CGAP's early work focused on microcredit, informed strongly by the experience of the Grameen Bank in Bangladesh.** Later, CGAP came to emphasize multiple financial services, including mobile payments. CGAP often works in close partnership with World Bank Group institutions and staff, undertaking work that is complementary, collaborative, or piloting for potential scale up. In the 2007 Financial Sector Strategy, the World Bank identified CGAP 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)." (World Bank 2007, page ix) CGAP also provides a platform for knowledge sharing and convening that is used extensively by the World Bank Group. Both the World Bank and IFC have had periods of close partnership on aspects of financial inclusion and now, in the drive for universal access by 2020, the collaboration appears even tighter.

3.9 **This evaluation offers an evaluation summary of recent and past reviews and assessment of CGAP.** Although CGAP has not to date been rigorously evaluated,[32] there have been a range of reviews and assessments that tried to gauge the role GCAP plays at the global level. A 2008 IEG "review" found that although its achievements were "impressive," "weaknesses in CGAP's monitoring and reporting system" made it hard to evaluate its contribution to alleviating poverty. The review further praised its collaboration with World Bank Group, it cautioned against too close a relationship "which could generate perceptions of unfairness and inequity on the part of other CGAP members."

3.10 IEG's 2011 independent assessment of the World Bank's involvement in global and regional partnership programs finds that CGAP "has become a powerful and pivotal force in the microfinance field, playing a critical role in helping build inclusive financial systems by providing advisory services, developing and setting standards, and advancing knowledge, training and capacity building." However, CGAP lacks a "well-articulated theory of change to indicate how each program's strategies and priority activities were expected to lead to the achievement of the program's objectives," its M&E system is "not well designed," and data on achievement of outcomes is not systematically collected. Nonetheless, IEG notes progress underway to strengthen M&E and the development of a "results-management system."

3.11 **The April 2012 Ayani-Universalia "External Mid-Term Review" of CGAP, also notes its major achievements and apparent impact.** Specifically, it identifies a high relevance as a "valuable and recognized brand in the field of financial inclusion". It finds CGAP "very effective in realizing its overall objective to create and share practically relevant knowledge to advance access to financial services for the poor." It also commends its general program design. However, the evaluation 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." In its 2014-2018 "Strategic Directions" document (CGAP 2013), CGAP aims to rectify this by defining a results framework that measures progress against defined objectives in terms of access and use of financial services by the poor globally, achievement of CGAP's strategic objectives, and CGAP's organizational performance. The most recent IET work on partnerships which also covered CGAP again underscores these points (Box 3.1). This evaluation found that CGAP has only quite recently developed a clear results framework. IEG did not come across results frameworks or independent reviews or evaluations of other partnership bodies, beyond a progress report.

Box 3.1. Findings from Recent IEG Evaluation of Partnerships

IEG, in its work on partnerships and trust funds, has found four common challenges related to selectivity, oversight, linkages to country operations, and results frameworks:

- **Selectivity:** Most donors allocate funds from a fixed envelope for total official aid; trust funds have not increased the size of that envelope. As earmarked pots of money with separate approval and allocation processes, trust funds tend to increase transaction costs for client countries and for the Bank and to impose parallel budgeting and approval processes. That is why the Bank needs to be selective in what trust funds and what governing procedures it agrees to.
- **Oversight:** Evaluations have found weaknesses in governance and transparency in many partnership programs, as well as frictions and conflicts of interest from the multiplicity of roles that the Bank typically performs in partnerships. Yet the Bank has no routine oversight and tracking of partnerships and of how it engages in them.
- **Links to country programs:** The Bank is uniquely placed to help client countries benefit from global programs. However, there are often missed opportunities at the intersection of the Bank's participation in global programs and its country engagements. There are no explicit agreements on division of labor between the Bank and some major global health programs.
- **Results are often unknown:** Although there has been progress in recent years, many partnerships that IEG has reviewed lacked clear goals and indicators. It is often hard to attribute results to specific partnerships let alone assess results across the portfolio.

IEG has recommended reforms to help the Bank address these challenges via internal reforms to ensure selectivity, routine corporate oversight, and policies and standards around partnership governance, engagement strategies for individual programs, empowerment of staff serving on partnership boards, and results frameworks.

Source: IEG 2015.

G-20 GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

3.12 **In 2010, the G20 created the Global Partnership for Financial Inclusion (GPFI), an inclusive platform for all G20 countries, interested non-G20 countries, and relevant stakeholders for peer learning, knowledge sharing, policy advocacy and coordination.** It is also the main implementing mechanism for the G-20 Financial Inclusion Action Plan, updated in 2014. GPFI began with three implementing partners – the Alliance for Financial Inclusion, CGAP and IFC, and later gained the World Bank, the Organisation for Economic Co-operation and Development, the Better than Cash Alliance and IFAD (International Fund for Agricultural Development) as additional implementing partners. Queen Maxima, the United Nations Secretary-General's Special Advocate for Financial Inclusion, is the honorary patron of the GPFI. GPFI began with three working groups: "Financial Inclusion Principles and engagement with the Standard-Setting Bodies", "SME Finance" and "Data and Measurement." It can create others as it deems needed. GPFI has been able to organize as a global consultative mechanism and to mobilize funding for key initiatives, including technical support for implementation of the G20 Principles for Financial Inclusion. World Bank experts suggest that GPFI provides an excellent platform for the World Bank Group knowledge and

policy contributions to achieve greater influence and a high-level audience within the G-20 and beyond (see Box 3.1).

3.13 **A key destination of this funding recently has been FISF, a program jointly financed by the Netherlands, the Bill and Melinda Gates Foundation, and the World Bank Group.** The FISF is a country-based program financing technical assistance, data and capacity building to assist leaders in national financial inclusion to achieve country-level commitments and targets. It covers such areas as SME finance (not a focal point of this evaluation), financial consumer protection, financial literacy, payments systems, digital payments and remittances. Rwanda, Indonesia and Mozambique were early FISF program participants. In 2014, GPFI members created a subgroup on Markets and Payment Systems to promote the use of payment systems for financial inclusion.

ALLIANCE FOR FINANCIAL INCLUSION

3.14 **The Alliance for Financial Inclusion (AFI) is a global knowledge-sharing network exclusively for financial inclusion policymakers from 90 developing and emerging countries.** Its partners include IFC, CGAP, the G20/GPFI, and the Bill and Melinda Gates Foundation. Although AFI offers several types of support for financial sector leaders and regulators, it is especially known as the shepherd of the Maya Declaration, a set of "measurable commitments" that financial institution policy makers can use to establish a national strategy. Under the Maya Declaration, commitments are made in four areas aligned to the G20 Principles for Innovative Financial Inclusion:

- Create an enabling environment to harness new technology that increases access and lowers costs of financial services
- Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability
- Integrate consumer protection and empowerment as a key pillar of financial inclusion
- Utilize data for informed policymaking and tracking results.

3.15 **The AFI comprises 54 institutions representing more than 60 nations with Maya Declaration commitments (as of January 2015).** World Bank experts regard the work of AFI as a vital step towards detailed country strategies for financial inclusion, by raising the consciousness and commitment of financial regulatory leaders (often Central Bank Governors or Finance Ministers) and political leaders. The Maya Declaration is also seen as an appropriate precursor to the FISF. AFI provides resources, peer review, support for M&E, and international conferences in support of its members from 90 developing and emerging

countries, including an annual global policy forum. The World Bank Group and G20 both work closely with AFI.

CENTER FOR FINANCIAL INCLUSION

3.16 **The Center for Financial Inclusion, based at the microfinance NGO Accion, is an action-oriented think tank aiming to achieve "full global financial inclusion,"** which is defined as a state where "everyone who can use them has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity." IFC, Citi Foundation, MasterCard Foundation, Visa, the Ford Foundation, the IDB, and KFW number among its partners. In its vision, these services should be "delivered by a range of providers, in a stable, competitive market to financially capable clients." Among its programs are the following:

- ***Financial Inclusion 2020***, "a research and advocacy project to deepen the shared understanding of what financial inclusion is, where the gaps are and the roadmap to achieve it." Through extensive consultation, this program establishes recommendations to move financial inclusion forward, with the year 2020 representing an aspirational target to "galvanize thought and action." In this initiative, CGAP leads a working group on "addressing customer needs," and IFC leads a group on credit reporting which, among other things, has brought a higher profile to the principles established by a World Bank task force on credit reporting.
- ***The SMART Campaign,*** "to embed client protection in the DNA of the microfinance industry." This campaign offers a certification program financial service providers to provide the "tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients." This includes transparency in pricing and terms of services, safeguards against over-lending, and providing appropriate services to client needs. Among its sponsors are IFC, USAID, IDB's Multilateral Investment Fund, Credit Suisse, Deutsche Bank, the Ford Foundation, and the Small Industries Development Bank of India. This last organization works with the SMART campaign under its "Responsible Micro Finance" initiative to educate MFIs on client protection principles, conduct client protection assessments and to build capacity and strengthening client protection for assisted MFIs.

MIX MARKET

3.17 **The Mix Market has become "the premier source of public information on microfinance institutions (MFIs) and their financial and social performance."** It collects data from over 2000 MFIs, validates and standardizes it, and provides access to data, analysis and market intelligence both as a public good and as a membership service. Partners in the Mix Market include CGAP (itself a partnership), as well as the Gates Foundation, the

MasterCard Foundation, IFAD, the Dell Foundation, Citi Foundation and UKAID. The MIX Financial Inclusion Lab publicly provides country-level data on microfinance services for 19 countries so far. MIX data are the most comprehensive and detailed data on MFIs available, and (as can be seen in this evaluation) provides a far higher level of understanding of industry characteristics and trends than would otherwise be available.

THE GLOBAL BANKING ALLIANCE FOR WOMEN

3.18 **The Global Banking Alliance for Women is an international consortium of financial institutions and other organizations whose mission is to accelerate the growth of women in business and women's wealth creation**, while also benefiting member financial institutions worldwide. It is especially focused on the small and medium enterprises, falling somewhat outside the scope of this work. Nonetheless, some of its work is focused more broadly on gender access to finance issues, including generating gender disaggregated data on financial exclusion. Members include the IFC, World Bank, CGAP, Citi Foundation, the G20 and GPFI, the Gates Foundation, the Omidyar Network, and UNCDF.

WORLD BANK GROUP INFLUENCE ON STANDARD SETTING BODIES THROUGH GPFI

3.19 **The World Bank Group has been able to have a strong impact on global Standard Setting Bodies (SSBs)** through its partnerships with CGAP and the GPFI (through the Regulations and Standard Setting Bodies subgroup). This work engages with six global SSBs:

- Financial Action Task Force (FATF);
- Basel Committee on Banking Supervision (BCBS);
- Committee on Payments and Market Infrastructures (CPMI);
- International Association of Insurance Supervisors (IAIS);
- International Association of Deposit Insurers (IADI); and
- (since 2013) International Organization of Securities Commissions (IOSCO).

3.20 According to knowledgeable informants, in 2009 and 2010, global standard setting bodies, influenced by the recent global financial crisis, were focused on restoring and safeguarding stability and integrity, without explicitly considering the potential impact on the poor. The Bank Group and its partners in financial inclusion responded. For example, under the mantle of GPFI, CGAP mobilized both its own expertise and that of "six relevant World Bank technical units" to produce the 2011 white paper: Global Standard-Setting Bodies and Financial Inclusion for the Poor -- Toward Proportionate Standards and Guidance.

3.21 This white paper became a broadly accepted reference in efforts to shape global standards in financial supervision to encourage financial inclusion. Through ongoing follow-up, utilizing these partnerships, the work has allowed SSBs to "own" financial inclusion, making it their own objective. Two concrete results have been:

- FATF, which is responsible for Know Your Customer (KYC) and related safeguards, acknowledged the risks of financial exclusion in terms of undocumented financial transactions. It accepted a tiered (proportional) system for KYC applying reduced scrutiny to simple accounts that imposed lower risk.

- The Basel Committee on Banking Supervision has evolved its core principles over time to strengthen proportional principles. Over time, through long term engagement of CGAP (with the endorsement and input of GPFI and engagement of World Bank experts), IEG learned that most of the recommendations of the 2011 White Paper (now being updated) were accepted by the SSBs.

PARTNERSHIPS AS PLATFORMS FOR WORK ON REMITTANCES

3.22 **The World Bank has exercised intellectual leadership on the topic of global remittances for many years, and in more recent times, has also leveraged global partnerships and platforms to move an agenda.** Research presented in Chapter 1 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, 2013). Reducing remittance costs has been one of the focal areas of World Bank's engagement.

3.23 Through the G8, the World Bank assumed leadership of a Global Working Group on Remittances (GWGR), authorized in 2007 and created in 2009. This body has worked to generate consensus on lowering the cost of remittances, by generating a common foundation of data and knowledge, and by promoting the "5x5" objective to reduce the global average cost of remittances by 5 percentage points in 5 years "through enhanced information, transparency, competition and cooperation with partners." Approved by the G08 and G029 in 2009 and tracked through the Remittances Price Worldwide databased hosted by the World Bank, this initiative is credited with stimulating global and country-level reforms that have significantly reduced the weighted average cost of remittances, resulting in tens of billions of dollars of savings to migrant workers and their families.

Country-Level Engagement for Policy and Sector Reform

3.24 **This section assess how well the World Bank Group has helped client countries establish and strengthen the enabling environment for financial inclusion.** The assessment

is based on a portfolio of Bank Group financial inclusions interventions, desk reviews of five country cases, and five in-depth country cases which included visits to the country, discussions with staff, country authorities and other stakeholders.

3.25 **For financial intermediaries to thrive and better serve the needs of the poor and unbanked, an enabling environment has to be in place** (Box 3.2). Such environments must be built in a way that is fosters sustainable financial inclusion delivering a range of quality and affordable financial services that meet the needs of underserved sectors (for example, the poor, women, MVSMEs, and rural areas). Even then there are likely to be potential clients at the very bottom of the pyramid that may not be reachable in a financial self-sustainable manner (that is, covering the economic cost of funding) without the support of at least temporary subsidies.

Box 3.2. Elements of a Financial Inclusion-Enabling Environment

An adequate framework of proportional regulation and effective supervision of financial services providers that targets the low-end of the market and which are allowed to mobilize deposits is in place. Such a framework should seek to ensure intermediaries' soundness and the protection of small depositors.[a] When numerous intermediaries are subject to oversight that could overly stretch the supervisor's resources, an appropriate, risk-based, tiered architecture of oversight is in place supporting the effective discharge of responsibilities. Rules and regulations are in place that provide for the transformation of non-depository taking financial intermediaries into authorized deposit taking institution subject to meeting requirements. Such a framework should help underpin the trust of users of formal financial intermediaries and the evolution of the industry serving the financial needs of the unbanked without overburdening intermediaries with compliance costs that drastically cuts outreach.[b]

Comprehensive, non-fragmented, reliable, and timely credit information on borrowers is made available by credit registries/bureaus and is used in credit allocation decisions, including by MFIs. Such services are provided by properly licensed and regulated entities underpinned in legislation providing for borrowers rights. The use of such information in credit decisions along with financially literate consumers can help lessen the risks of over-indebtedness and the soundness of intermediaries as incentives for timely repayment of credits are strengthened.

Simplified, risk-calibrated procedures for account openings, transactions size, and balances holdings are in place helping overcome identification constraints while safeguarding the integrity (AML/CFT) of the system; and/or national identifications are made available and affordable. Many of the unbanked face challenges in ascertaining their identity and proof of income.

Source: IEG.

a. Proportional refers to the balancing of risks and benefits against the costs of regulation and supervision. See CGAP 2011.

b. Thirteen percent of Global FINDEX survey respondents who do not have an account at a formal financial institution identify lack of trust as a reason; see World Bank 2014.

NATURE AND EVOLUTION OF WORLD BANK GROUP SUPPORT TO POLICY REFORM

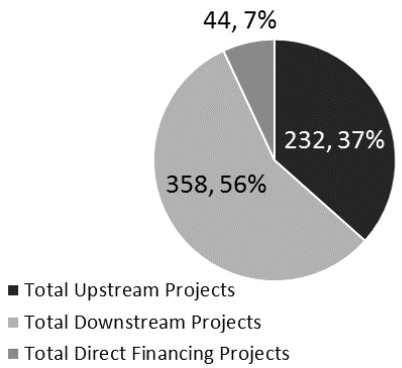
3.26 **World Bank Group country interventions in financial inclusion have various components.** They typically entail components aimed at building or improving the enabling environment, that is, "upstream" components; components that provide financing for on-lending through MFIs, guarantees for such funding, or advice to MFIs, that is, "downstream" components; or a mix of both. This section focuses on projects that have at least one "upstream" component (see Box 3.2).

3.27 **Of the total of 634 financial inclusion interventions of the World Bank Group, about one third or 232 were upstream support during the period of evaluation—FY07-FY13.** Upstream interventions are provided by both the World Bank and IFC with two thirds of the total number of interventions delivered by the former. The World Bank upstream interventions were delivered in roughly equal proportion through lending instruments and AAA. It is not unusual for AAA interventions to be delivered in parallel with lending or preceding lending operations, for example providing advice to authorities on legal and regulatory matters that subsequently are considered in the context of Development Policy Loans. IFC upstream interventions were delivered through its advisory services. These interventions (IFC Advisory Services) are usually delivered in the context of related investment interventions as a way to establish or strengthen a regulatory framework (for example, when investing in a greenfield MFI and the country lacks a regulatory and oversight framework for this type of intermediaries). A breakdown of the entire World Bank Group financial inclusion portfolio and a breakdown by institution, is provided in Figure 3.1.

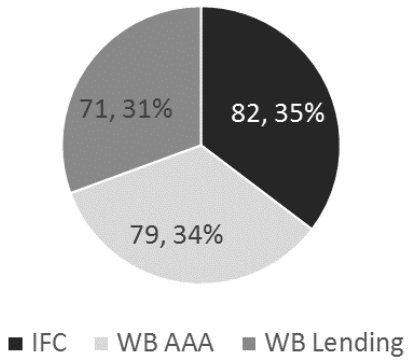
3.28 **World Bank Group's support to policy reforms focuses on diagnostics and regulatory, legal and financial literacy issues.** In broad terms, the World Bank tends to provide policy advice and technical assistance pertaining to the *broader* financial system (for example, strengthening of banking oversight, reform of the credit cooperative sector) while IFC's advisory services tend to have a *narrower* sectoral focus (for example, MFIs) but on many occasions with applications that go well beyond microfinance (for example, credit bureaus). With this distinction of focus in mind, both entities have been active in the provision of interventions with regulatory, legal, oversight, and financial literacy focus. IFC has been quite important in the area of financial infrastructure and financial literacy-related interventions, whereas the World Bank has been active in undertaking sectoral diagnostic work (and advising on the formulation of financial inclusion strategies) in a number of countries. Competition policy and consumer protection issues are rarely addressed (Figure 3.2).

Figure 3.1. Bank Group Support for Policy Reform for Financial Inclusion

(a) World Bank Group by Upstream / Downstream

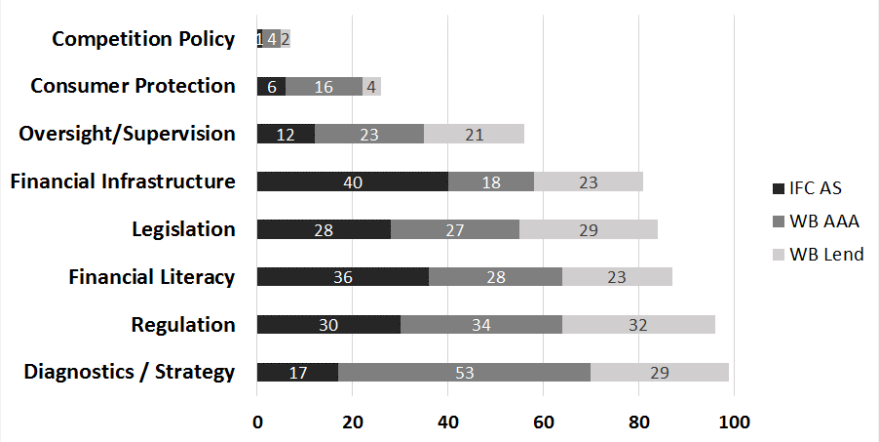


(b) Upstream Support by Institutions



Sources: IEG portfolio analysis.
Note: The total number of interventions reported above in graph (a) exceeds the total number of upstream interventions as a particular Bank Group intervention may have multiple components and hence may appear more than once in the classification of constraints. The portfolio review classified upstream interventions in country operations by the financial inclusion constraints that were dealt with: Diagnostic and Policy; Legislation; Regulation; Oversight and Supervision; Competition Policy; Financial Infrastructure; Consumer Protection; and Financial Literacy. A particular Bank Group intervention may have multiple components and hence may appear more than once in the classification of constraints. For example, an intervention could have addressed changes in the laws and regulations governing MFIs, and in their supervisory practices therefore the intervention would be classified under each of the three categories. It is also noted that legislation/regulation/oversight may refer to MFIs, or SACCOS, or mobile banking, or credit bureaus, or other financial service institutions. Thus the total number of interventions reported in Figure 3.2 for the areas covered exceeds by a considerable margin the total number of upstream interventions identified in the portfolio review.

Figure 3.2. Focus Areas of World Bank Group Policy Reform Interventions, FY07-13



Source: IEG portfolio analysis.

3.29 **On the World Bank side, lending with upstream components was delivered primarily through DPLs and sectoral investments loans, averaging about 8 to 10 projects per year** (Figure 3.3). The choice of instruments in part reflected the expected length of

supported reforms and focus area. Among these operations, DPLs account for half of the number of operations, experiencing a surge in the context of the global financial crisis. Interventions aiming at structural reforms of long gestation (for example, reform of the credit cooperative sector and its oversight in Mexico) and where it is important to monitor progress over time were implemented under a series of investment loans with sufficient maturity, and when necessary extension of deadlines, to keep policy dialogue and reforms moving even at a slower than anticipated pace.

Figure 3.3. World Bank Lending Interventions by Instrument FY07-13

Source: IEG portfolio analysis.

3.30 **In addition to lending, the World Bank also provides policy reform support through AAA.** Overall, financial inclusion-related AAA represent just over two percent of the World Bank's AAA portfolio or 11 percent of FPD AAA activities in both number and volume. This AAA support focuses mainly on upstream issues (80 percent) and almost doubled in recent years, FY10-13, compared to FY07-09. Interestingly the share of non-credited-focused AAA increases as well, amounting to 41 percent recently. The single most important field of activities is informing government policy (25 percent), including providing strategic advice, followed by stimulating public debate and raising awareness (18 percent). An area of particular strong analytical support has been payment systems, remittances and financial infrastructure; for the future, the World Bank is planning to expand its support through a global program on consumer protection and financial literacy.

3.31 **Many upstream interventions tended to address several areas at the same time and be tailored to country circumstances.** For example, an IFC advisory service in Ghana in the area of credit bureaus approved in FY10 aimed at strengthening the effectiveness of the country's credit reporting system—part of its financial infrastructure. Legislation underpinning the credit reporting industry had been enacted in 2007 with World Bank support, but implementation was not as effective as envisioned, failing to fully realize the benefits of credit information systems. Only informal mechanisms for information reporting (by intermediaries) and sharing (among credit bureaus) were being used, resulting in a fragmented system with incomplete information. Further industry oversight had not been

well established, reflecting the lack of Central Bank experience in this area. There was insufficient education of financial services intermediaries and the public on the new credit information system and on how to use credit information in the credit decision process.

3.32 The IFC Advisory Services intervention sought to establish a Code of Conduct to govern relationships among bureaus and creditors and to facilitate its acceptance; strengthen the capacity of the Central Bank to oversee credit bureaus; and to support the credit bureaus and the Central Bank to promote public education on the role and importance of credit bureaus and consumer protection. In the case of an IFC intervention in Lao PDR on credit bureaus, an overhaul of the sector was required starting with the need to establish regulations for electronic credit information reporting, the creation of such a system, and the training of Central Bank staff to operate the new system and of the industry to introduce the system and its uses.

3.33 **IFC upstream interventions are generally linked to downstream advisory and investment interventions which are sometimes beneficial, but at times have raised the perception of conflict of interest.** A successful example of upstream advisory occurred in Liberia. There, the IFC had supported the establishment of a commercial greenfield MFI in Liberia in 2007, but there was no legal and regulatory framework in place that would help underpin operations involving this type of intermediary. The IFC Advisory Services intervention sought to help the Central Bank review existing banking law and its applicability to MFI activities, draft legislation and implementing regulations as needed, and build capacity to oversee a new (for the country) type of financial intermediary, while transferring best practice in the oversight of banking and microfinance activities. This timely engagement with the Central Bank was credited with building the authorities' confidence and laying down an appropriate oversight framework that also helped in the process of accepting the MFI's license application. However, there have been other cases (for example, mobile banking in Indonesia) where the authorities viewed the advisory services advice as being tainted by potential conflict of interest and they therefore decided to rely on the World Bank for advice on regulatory matters. In other cases, the IFC using its convening capacity sought to influence regulation of mobile banking and credit bureaus (China).

3.34 **The World Bank Group country engagement on establishing an enabling environment for financial inclusion has evolved over time.** The desk reviews and country case studies shows a pattern of engagement that typically started with broad reforms of the financial sector and later on with more focus engagement in particular areas. This evolution is reflected on how financial inclusion has been couched in Country Assistance Strategy (CAS) and Country Partnership Strategy (CPS) documents. Typically, CAS/CPS covering the earlier years of analysis (that is, FY01-FY06) did not include specific references to financial inclusion or inclusive finance but, rather, financial sector issues were discussed in the context of broad financial sector reform and development (deepening) under the economic growth pillar. In

more recent years (for example, 2007-10), references started to be become more specific about fostering access to finance to underserved sectors including SMEs, the poor, and rural areas. Such references are presented variously under poverty alleviation and economic growth pillars. Finally, more specific references to financial inclusion started to appear more recently (approximately FY10-FY11) under the inclusive growth pillar.

3.35 **Initial reforms sought to help put in place the broad conditions for financial sector stabilization and deepening and in some cases establish very basic financial sector infrastructures.** Such conditions refer, among other things, to the regulation and oversight of the banking (more broadly financial) system and its stability, the rule of law, basic payment system infrastructure and the soundness of key financial sector intermediaries. In a country like Ghana, constraints were identified at the level of the banking and financial system regarding prudential regulations and oversight, and financial infrastructure. In other countries like Mexico and India, there were important problems with (absent/inadequate) regulation and oversight and the soundness/governance of whole segments of the financial system (the savings and credit cooperatives sectors and other types of MFIs).

3.36 In Indonesia, for example, the interventions sought to buttress financial sector stability in the aftermath of regional financial crises and then institutional reforms of MFIs followed by the broad reform of the rural and microfinance sectors. In other countries, the reforms supported the privatization or restructuring of state-owned banks (for example, Tanzania). In Azerbaijan, early interventions sought to help put in place the very basic infrastructure for the operation of a financial system, namely a payment system, accounting standards, collateral rules and law enforcement that would lay the foundations for the overhaul of credit systems, including in rural areas, later on. These types of interventions were expected to foster deeper financial systems which research has found supports economic growth and in turn employment generation.

3.37 **The more focused engagements that appeared later on sought to address specific constraints impinging on financial inclusion, but typically focalized on the access-to-credit dimension of financial inclusion.** For example, in Azerbaijan and China the absence of centralized and/or deficiencies in credit bureaus and the undue reliance on collateral were seeing as impediments to access to finance for MSME. Similarly in the case of the Kyrgyz Republic, recent documents identify the need to build a credit information infrastructure and a modern moveable collateral registry to support access to credit to SMEs, and the transformation of the postal office into a deposit-taking financial intermediary with broad geographic coverage. In India, overcoming deficiencies in microfinance credit information systems and achieving adherence to a Code of Responsible Finance were seen as important actions to foster recovery and growth of the microfinance industry. In Ghana, interventions sought to strengthen the operations of a credit bureau that had been established under the aegis of a law the World Bank Group had supported a few years earlier. In the case of

Indonesia, a very important AAA report identified personal identification requirements and lack of collateral as major constraints and, reflecting the country's adherence to the Maya Declaration, the need to develop branchless banking including mobile services.

RELEVANCE OF POLICY REFORM SUPPORT

3.38 **World Bank Group interventions that aim at creating or improving an adequate enabling environment for financial inclusion, that is, "upstream" interventions take place in countries that have low inclusion rates.** Roughly two-thirds of the countries are low-inclusion countries (see Chapter 2 for classification), and about 64 percent of Bank Group upstream interventions occur in these countries. Looking more closely at the various components of upstream work, the percentage of upstream interventions with regulatory, oversight, and legal content rises to just below 70 percent of the respective totals to countries in the first quartile. A somewhat similar pattern, albeit at a much lower scale (in the range of 20-30 percent) emerges for countries in the second quartile, and finally relatively fewer resources are allocated to countries in the third quartile.

3.39 **A closer look at the World Bank Group's identification of upstream constraints to financial inclusion in the country cases and desk reviews reveals a mixed picture, with certain areas receiving scant attention.** World Bank interventions have identified shortcomings in (or the total absence of) oversight of certain types of financial intermediaries (for example, savings and credit cooperatives, credit unions) that cater to lower income segments of the population and frequently operate in rural areas. Country examples include Azerbaijan, China, India, Mexico, and Tanzania among others. In turn, the IFC has identified a few cases where there was no regulatory and oversight framework for MFIs, or the one in place presented severe deficiencies including with regard to prudential treatment of microfinance activities and the capacity of the supervisor to oversee those intermediaries.

3.40 Constraints have also been identified with regards to the adequacy of the regulatory architecture to oversee a large number of intermediaries given the limited resources and capacity of the supervisor (for example, Ghana, Tanzania). Several IFC advisory services interventions have also identified shortcomings in credit registries and credit bureaus and their legal and regulatory frameworks (for example, Azerbaijan, China, and India) and less frequently in the oversight framework for mobile banking (for example, Indonesia). However, very rarely, if at all, have they identified legal/regulatory constraints associated with branchless (correspondent) banking or with KYC requirements or the extent of competition (or lack thereof) in the provision of financial services to the poor. Also rarely mentioned are concerns over consumer protection legislation, regulation, practices, and oversight although adoption of microfinance industry Code of Conduct has been identified as an issue of focus in a few IFC interventions (for example, Pakistan and India). Financial literacy is rarely

identified as constraint, but the review found a few countries where it has been a focus (for example, Ghana).

3.41 **Some of the gaps in constraint identification appear puzzling, given the state of financial inclusion and country characteristics.** One such case is Azerbaijan. The Global Findex survey reported that only 15 percent of adults held formal institutional accounts and the rate was much lower in rural areas. Further, close to half the population live in rural areas which are scarcely (if at all) served by banks.[33] It is surprising that in this context there is no discussion of the potential role of branchless banking (bank agents and mobile banking) as a means to increase access, particularly in rural areas. Nor was there any discussion of whether the enabling regulation was in place to support the development of such delivery channels. Similarly, in the case of Tanzania, where only 30 percent of the population (most of whom live in rural areas) live within 5 km of an access point, there is no comprehensive discussion of the enabling environment for branchless banking which inter-alia could help overcome the low density of access points to financial services in rural areas and "bypass" the strict requirement to branch opening. Although there are 4 mobile network operators offering e-transfers through a non-exclusive network of agents, there is no explicit regulatory framework setting standards for a broader range of products and services (for example, savings, deposits) or providing for the oversight and linkage to payment system infrastructure that would provide stronger underpinnings to the system. However, it is worth noting that, through IFC efforts financed by the Partnership for Financial Inclusion, operators are seeking to achieve system interoperability.

3.42 **IEG also found several country cases where constraints to financial inclusion had been identified and tackled by the countries on their own and/or with the support of other developmental partners.** For example, in the case of Mexico, where informality reaches up to half the labor force, ways needed to be found to allow for opening accounts at various access channels (banking agent, mobile, branch) that would also preserve the integrity of the financial system. A risk-based four-tier system of accounts was developed with a requirement increasing levels of information risk-calibrated to the volume and range of transactions allowed and the channel used to open the account.[34] In Azerbaijan, while the Bank had identified the lack of a centralized credit bureau and collateral requirements as constraints to foster access to credit to MSME, efforts to overcome shortcomings were carried forward by USAID.

3.43 **However, there are a few country cases where World Bank Group documents report on identified constraints but have no indication of subsequent (timely) interventions** and as a result an imbalance between upstream and downstream interventions can emerge. It is not clear what the reasons may be for a lack of timely follow-up. It is possible that the countries themselves have tackled those constraints without the need of World Bank Group

support but this has not been documented in World Bank Group reports. Perhaps those constraints have not been addressed yet, but that should be noted too.

3.44 **For example, in the case of China, World Bank Group documents had identified shortcomings in the capacity of regional governments tasked with oversight responsibility** over private MFIs (called MCCs) operating in rural areas, but is unclear that the diagnostic was shared with the authorities or that regional government oversight capacity was subsequently strengthened. This country is an example where most of the World Bank Group interventions were downstream, with a limited set of upstream AAA interventions.

3.45 **In India, during the initial stages of engagement on financial inclusion covered in the evaluation, the World Bank Group did not identify the absence of an appropriate oversight framework** for MFIs as a key constraint and made only limited efforts to push for the development of sustainable financial intermediaries and prudent financial inclusion. For example, the Bank had encouraged responsible finance through its project with SIDBI through voluntary standards. When troubles surfaced in certain states, the regulatory reaction of the State of Andhra Pradesh drastically curtailed the activities of MFIs. A more proactive and timely engagement on the World Bank Group's part might have limited the impact of latent troubles early on and thus avoid the adoption of draconian regulations later on.

3.46 **In the case of Tanzania, savings and credit cooperatives (SACCOs) are subject to a prudential framework but one which is not effectively enforced owing to limited capacity** and resources of the overseer and limited capacity of intermediaries to comply with prudential requirements including reporting. There are some 5,800 SACCOs in Tanzania but it is not clear to what extent is that system sound and what its outreach effectively is because there is no reliable data available. At the same time the authorities are seeking to develop stable sources (for example, deposit mobilization) to fund credit and thus it would seem critical that an updated systematic review of constraints impacting the SACCOs sector (for example, adequacy of regulatory standards, of the architecture of oversight given overseer capacity constraints and risks posed by the intermediaries, and capacities of SACCOs) and the fleshing out of options to address them be undertaken.

3.47 **By contrast, World Bank support in neighboring Kenya was more successful in creating a viable regulatory environment for SACCOs.** The Financial Sector Deepening Trust, which is supported by the World Bank and other donors, has been credited with having supported the passage of a law and supportive reforms to establish a regulatory framework for SACCOs for improving the regulatory framework for microfinance, and for supporting microfinance institutions through grants.

3.48 **In most of the country cases reviewed, no government financial inclusion strategy was explicitly laid out or discussed in Bank Group country documents.** It would seem

reasonable that a systematic identification of constraints would inform the formulation of strategies to which the World Bank could have contributed. Absent such an organizing devise, it appears that the financial inclusion constraints identification work has proceed in an unsystematic way. An illustration of this are instances where the IFC in the context of investment services is supporting the setting up of credit bureaus, mobile banking investments, and greenfield MFIs to fill particular immediate gaps in the enabling environment but there is not comprehensive effort to identify and tackle all relevant constraint impacting the enabling environment.

3.49 **One exception appears to be Indonesia, where an influential World Bank Group AAA report and the authorities' adherence to the Maya Declaration in 2012 helped lead to the formulation of the National Financial Inclusion Strategy,** which identified the establishment of an enabling environment for branchless banking, credit reporting, no-frills accounts as important components. The Bank is supporting a growing number of countries to establish such strategies, but this is a very recent phenomenon. There are country cases where different governmental entities have put forward financial inclusion initiatives but they appear fragmented and without clear prioritization (for example, India). It does not appear that the World Bank Group or authorities are making systematic use of the Global Findex findings on the reasons survey respondents give for not having a formal financial accounts to identify priority reforms to expand financial inclusion. At a broader level, formulating an explicit financial inclusion strategy could also help coalesce the political commitment of key stakeholders while likely providing a forum for the World Bank Group to both coordinate (across internal units) and to engage strategically at the highest policy level.

3.50 **There does not seem to have been any explicit coordination in the endeavor of identifying upstream constraints among the governments, World Bank Group, and other development partners**. In countries with strong institutional development and capacities, it seems that such tasks are primarily the remit of the government who takes the initiative and coordinates efforts, with the Bank playing a supporting/consultative role at times.

3.51 For example, in the case of Mexico, identifying the challenges of informality and KYC requirements were tackled by the government interfacing with the relevant standard setter (the Financial Action Task Force) and consulting with experts in the field of banking correspondents. In the case of India, the government drives the financial inclusion agenda and the roles different developmental partners play in support of it. In general it is not clear what arrangement is in place to ensure that such endeavor is carry forward in a systematic and comprehensive was which leaves room for gaps to emerge and duplication of efforts to occur. Once again, the formulation of an explicit financial inclusion strategy would seem to offer an opportunity to tackle the issue. The new instrument of the Financial Inclusion Support Framework, aimed to develop a national approach to expand financial inclusion

through enabling the achievement of country commitments and targets, may offer a more systematic approach.

3.52 **In some cases there were opportunities missed to productively collaborate across World Bank Group entities.** For example, when the IFC takes an investment position or provides advisory services to a company, it is not always clear whether it takes as given the regulatory framework or an assessment of its adequacy is considered. For example, in Pakistan, IFC appears to have been successful in helping establish a credit bureau for MFIs, but it is not clear whether there had been an analysis by the World Bank or the IFC (or other independent entity) of the adequacy of the legal and regulatory framework for that activity. At the same time, there are cases (for example, India) where IFC used its advisory work and convening power to push the adoption of industry standards for credit reporting by non-bank financial companies. Although such an IFC action could certainly be beneficial for the sector and consumers, it run the risks that it may be perceived as tinted by conflict of interest. In those cases it would seem that if were the World Bank to be engaged in providing advice on the matter it could be better received by country authorities.

3.53 **Strong analytical pieces on the state of financial inclusion in the country including the identification of constraints can set the stage for productive policy dialogue with the authorities and key stakeholders for several years.** In the case of Indonesia, a World Bank AAA report "Improving Access to Financial Services in Indonesia" (World Bank 2010) is considered to have played an important role in shaping the national financial inclusion strategy and agenda of the government. The report drawing on a dedicated survey identified constraints—documentation requirements and lack of collateral--from the perspective of (potential) consumers, quantified access gaps in financial products (savings accounts) and services both from the demand and supply side. Some results surprised the authorities (for example, only half the population have access to financial services notwithstanding having one of world largest microfinance banks, BRI's Unit Desa system) triggering reexamination of the approaches hitherto taken to financial inclusion. In the case of India, the AAA report "India—Scaling-up Access to Finance for India's Rural Poor" (World Bank 2004) and the activities surrounding it (including workshops with high-ranking government officials) were strongly influential in stimulating a heightened attention and activity in delivering financial services to the poor, rural citizens, and women. It built on a survey of rural households and background papers conferring the World Bank significant stature, visibility, and credibility with the government. It laid the analytical foundations for subsequent World Bank engagements with the government in areas ranging from self-help groups and their linkages to commercial banks to microfinance to crop micro-insurance, but was not followed up with a similarly comprehensive or influential analytic work since.

3.54 **In principle, the joint World Bank-International Monetary Fund (IMF) FSAP provides an analytic vehicle** for a stock taking of the state of financial inclusion in member

countries, the identification of constraints, and the formulation of recommendations. In practice this has rarely been the case, as the treatment was not comprehensive, based on a standard and recognized framework, and/or sufficiently detailed and data-driven to mobilize relevant parties to action (Box 3.3).

Box 3.3. FSAP and Its Application to Financial Inclusion

The evaluation finds that discussion of financial inclusion enabling environment issues vary greatly in terms of coverage and depth of treatment in the desk review and country study cases. In eight of ten cases covered in-depth in this evaluation, there is an accompanying technical note focusing on such issues in detail which provides background and analysis presented in the FSAP's missions' Aide Memoires (not made public) and Financial Sector Assessment reports (public).[35]

Coverage ranges from quite limited treatment of the issues in the cases of Indonesia (2009) and Pakistan (2010)--where perhaps concerns over financial system stability trumped other considerations--to fairly comprehensive discussions in the case of Kyrgyz Republic (2013) and Ghana (2011). In the case of the former, the FSAP focused on oversight of MFIs, access to finance, and certain infrastructure issues, and notably aspects of consumer protection and financial literacy in light of cases of serious abuse by MFIs. In the case of the latter, it covered legal and regulatory frameworks, market infrastructure, the gaps in effective oversight of credit unions, and the scope for regulatory arbitrage. In other cases, the treatment is fairly narrow, for example in India where the technical note focusses exclusively on three ongoing initiatives of the BRI. In other cases the coverage is fairly comprehensive but important gaps appear in the analysis. In Kenya (2010), the FSAP had a fairly comprehensive discussion relevant to country circumstances (for example, challenges implementing recently enacted legislation on credit bureaus, SACCOs, and MFIs) but with some important gaps in coverage—no discussion of the regulatory challenges associated with agent exclusivity and competition in mobile payment services. Similarly in the case of China, the treatment is fairly comprehensive on a range of issues (for example, shift to commercially-oriented provision of services, mobile banking in rural areas) but there is little discussion of the adequacy of the oversight framework for NBFIs, particularly relevant in light of the role of local governments in that regards.

In most cases, the recommendations regarding the enabling environment appear to be clearly driven by the need to overcome identified constraints but the degree of specificity varied. For example in the case of the Kyrgyz Republic emphasis is given to need to develop the role of financial agents and mobile banking and the supporting regulatory environment to overcome barriers to financial inclusion associate with the geography and low population density in rural areas. In the case of Mexico, FSAP Update recommendations focused on the need to develop an effective exit mechanism to help bring the ongoing restructuring of financial cooperatives framework and the need to adjust branchless banking pricing policies to help realize the opportunities for financial services delivery innovation that the regulatory framework creates room for. But in other cases it is not that clearly apparent the strength of the case made in the reports put forward for some of the recommendations (for example, in India regarding the call for passage of the MFI law). There are also cases where the discussion and recommendations are couched at the broader level of the financial system like in Azerbaijan (2004) reflecting the need to put in place some basic infrastructure (for example, accounting, financial reporting) and oversight frameworks (for example, NBFIs—MFIs and credit unions), but at the same time pointing to areas for development later on (for example, payment infrastructure in rural areas).

Overall, there is a need to develop a comprehensive and systematic assessment tool that covers all elements of the enabling environment. No doubt there are country circumstances where it would not be appropriate to engage in such systematic assessment, for example when there are clear signs that the stability of the financial system is in peril and hence relevant focus would be in avoiding falling into crisis/and or ensuring adequate preparation for it. In most other cases and where the indicators for financial inclusion show

significant deficiencies provision should be made under the FSAP (perhaps under its developmental module) to undertake such assessment in particular drawing on demand-side survey findings that now cover an ever growing number of countries (Global Findex). Such assessments should among other things tackle adequacy of regulation of intermediaries catering to the bottom of the pyramid, branchless banking (agent/mobile), KYC regulations, infrastructure (credit information and payment system), and consumer protection/literacy from the perspective of financial inclusion. Many of these issues are already covered in FSAPs so the challenges is to systematically draw the implications of those assessments for financial inclusion in a sharper way. At the same time, financial inclusion implications should be borne in mind when putting forward recommendations in those other areas.

Source: IEG.

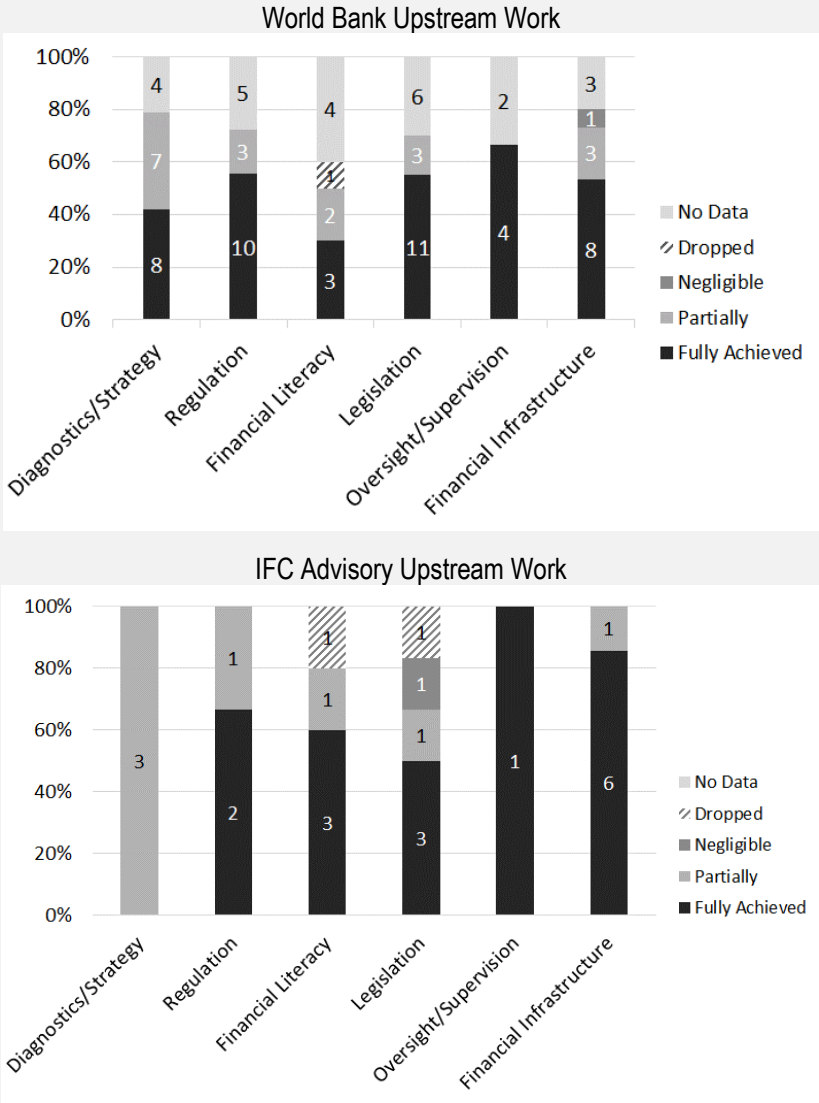
RESULTS AND DRIVERS OF SUCCESS AND FAILURE

3.55 **On balance, World Bank Group upstream interventions appear to be broadly effective (Figures 3.4).** In most areas of upstream involvement, the objectives have been fully achieved in more than half of the cases. For both the World Bank and IFC, interventions focused on oversight, regulations and financial infrastructure obtained the best ratings. Financial literacy interventions for the World Bank and financial inclusion strategy interventions for IFC advisory services are the two areas of involvement where effectiveness has most substantially faltered. It should be noted that close to one third of the World Bank upstream interventions lack sufficient data to judge their effectiveness.

3.56 **The desk and country cases studies reveal a more nuanced assessment of the effectiveness of World Bank Group upstream interventions.** There are areas of involvement where interventions proved to be quite effective in certain country cases but far from it in others. They also show the importance of properly sequencing upstream and downstream interventions and of taking a more holistic approach to the identification and tackling of constraints.

3.57 **It has proved challenging to successfully put in place a prudential and oversight framework that allows for the mobilization of savings by financial institutions that cater to the low end of the income pyramid.** Having such a framework in place is consequential for realizing the benefits of financial inclusion associated with savings products. Research has documented this to be the case. But the standards (for example, managerial, governance, prudential) that financial intermediaries are required to meet to be allowed to mobilize savings are understandably demanding, including for the larger member-type intermediaries (for example, credit unions and cooperatives). Interventions typically had to contend with a large number of intermediaries with poor managerial capacities, very weak governance and accounting practices and very troubled financial soundness indicators. At the same, the supervisory agencies needed major strengthening or new agencies needed to be created.

Figure 3.4. Effectiveness of World Bank Group Policy Reform Interventions



Source: IEG portfolio analysis.

3.58 **The effectiveness record is mixed.** Among the successful cases are interventions in Mexico which started in the early 2000s with the drafting of sector law and the support for its implementation that included the restructuring of the sector and financial intermediaries—operations, governance, products and services, and outreach--and the strengthening of the supervisor. At the outset of the process there were more than 600 savings and credit cooperatives and other types of MFIs that came under the aegis of the law and the financial sector prudential regulator, with very few coming close to meeting the new law's requirements. Ultimately, many institutions were successfully reformed and currently more than 140 savings and credit cooperatives and close to 50 popular financial societies

(SOFIPOS), a type of MFI, have been authorized by the prudential regulator to operate. The supervisor has implemented a risk-based approach to oversight with the support of an Apex institution.

3.59 Overall, the sector displays adequate financial soundness indicators and a healthy expansion in the number of clients and product but some challenges remain. The World Bank Group has also had a long engagement with India in the reform of rural credit cooperative banks and the strengthening of microfinance sector oversight, including support for the development of the credit information system. Although the efforts achieved substantial reforms, the longer-term impact is not clear yet. In the case of Kenya, following the support to draft and enact sector legislation efforts at formalizing intermediaries have shown some success with 83 SACCOs and 6 deposit-taking MFIs licensed. However, there are still weaknesses in oversight and capacity of responsible agencies. In the case of Tanzania, World Bank intervention to support the development of community-based savings and credit intermediaries like SACCOs has shown very limited results reflecting the challenges posed by the very large number of entities (some 5,800 SACCOs), and the limited resources and capacity of the supervisor.

3.60 **A similar mixed record of effectiveness has been registered in interventions that support the adoption of a regulatory framework that provides for the transformation of prudentially unregulated MFIs into regulated deposit-taking MFIs.** This type of transformation allows an MFI to widen the range of financial products it can offer--which typically is some form of credit--to also include deposit taking (transactional and savings) while diversifying its sources of funding beyond, for example grants and equity. In the case of Azerbaijan, the World Bank had supported the enactment of legislation in 2010 that provides for credit unions and MFIs' transformation into joint-stock company allowed to mobilize deposits. However, so far very little progress has been achieved as the regulator's concern over weak governance practice and capital adequacy of these entities has yet to be assuaged thus limiting the growth of rural financing. The IFC was effective in supporting the transformation of some NGOs into prudentially regulated intermediaries, for example, in Pakistan.

3.61 **There is also a mixed record in the somewhat related area of transforming state-owned entities into financial services providers catering to low income clients.** An important success was achieved in the World Bank-supported privatization of a loss-making, multipurpose state-owned bank in Tanzania, creating the NMB bank as a self-sustaining institution focused on microfinance. This institution has emerged as a commercially viable and very important microfinance service provider with a network of branches across the country. The transformation of the post office in Azerbaijan as a financial service provider from just payment and transfer services into also a deposit-taking institution proves more

challenging than anticipated and dialogue is still ongoing to secure an international partner to assist Azerpost in becoming a more advanced financial service provider.

3.62 **In the case studies, interventions supporting the establishment and regulation of infrastructure like credit bureaus have been more effective.** Ghana provides a good example of the benefits of proper sequencing and collaboration across World Bank Group entities in helping put in place elements of an enabling environment. The World Bank provided support for the drafting of the Credit Reporting Act of 2007, with a private credit bureau licensed in 2008—credit reports started in 2010. IFC provided technical assistance and education to key stakeholders in the use of credit information and in drafting a Code of Conduct. Most of the intermediaries required to provide information to the bureau are doing it, and the depth of credit information index in the World Bank's Doing Business rankings jumped from 0 in 2009 to 5 in 2013. Similarly in India, IFC has been instrumental in the development and adoption of a Code of Conduct by the microfinance industry association that also "governs" credit information. Building on its advisory work, IFC also helped stakeholders to convene a meeting that produced a commonly accepted (and now universally applied) credit information format for nonbank financial companies, comprising most of the MFI industry.

3.63 **A range of factors seem to underpin the more successful and the less successful upstream interventions:**

- ***Broad financial sector reforms*** early on appear to have set the stage for subsequent engagements with a sharper focus on financial inclusion objectives (for example, improving access to finance to SMEs, underserved sectors of population—poor, women, rural), for example, in Mexico, Indonesia, and India.
- Where a fairly ***explicit national financial inclusion strategy*** has been articulated by the government (with/without the World Bank Group's support), that has served as a reference point for more holistic approaches to setting up an enabling environment for financial inclusion. For example, in Indonesia, where a World Bank AAA report was influential in shaping the strategy, a broader range of interventions has been/is being pursued by the World Bank Group than is typically the case. Such a broad approach, which aims to overcome a host of constraints, includes interventions dealing with regulatory reform in agriculture finance, credit reporting and secured transactions registries, and "branchless" banking. In contrast, there are cases where clear constraints to financial inclusion have not received sufficient attention by The World Bank Group, for example in setting up an enabling environment for rural finance and "branchless" banking in Tanzania.
- Lasting ***government commitment*** in conjunction with a flexible instrument for policy, technical assistance, and financial engagement played an important role in the restructuring of the popular savings sector in Mexico which has taken more than a decade to come about. The flexibility was important, among other things, to adjust the expiration period and amount of loans as the transformation of a large number of

member-based financial intermediaries tends to be a protracted process. Absent such political commitment progress in implementing a financial inclusion agenda can be stalled for years (as was exemplified in Tanzania until recently).

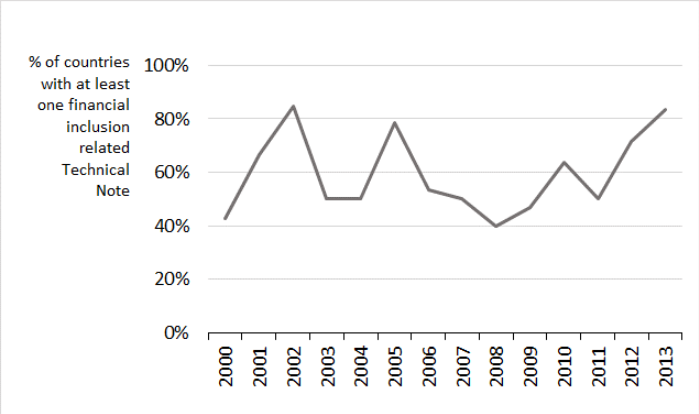
3.64 **The approach hitherto taken by the World Bank Group regarding the identification and tackling of constraints to financial inclusion is neither systematic nor comprehensive.** There is little evidence of World Bank Group activities geared toward the systematic and timely identification of regulatory/legal/oversight constraints that could be impinging on the development of financial inclusion.

3.65 **To be sure, there are country cases considered in this evaluation where the World Bank Group played a significant role in identifying major legal and oversight gaps** (for example, credit cooperatives in Mexico) and in supporting the authorities in effectively addressing those gaps. It is less clear however that that such an identification was part of a holistic assessment of the adequacy of the various elements (for example, intermediaries, credit information bureaus, registries, consumer protection, and payment systems) that support financial inclusion. The diagnostics of payment systems, remittances and financial infrastructure were an exception in this regard. In select countries, these were systematically covered through assessments at the country level, including in FSAPS. In addition, a range of global survey tools have been used including the Global Payment System Survey, a bi-annual survey among central banks to collect information on the status of payment and settlement systems; and the Remittance Prices Worldwide, a website providing data on the cost of sending and receiving remittances. **It is possible that in some country cases, the lack of traction in policy dialogue at the strategic level (for example, India) may have contributed to the absence of a coherent national strategy** for financial inclusion. At the same time, this is also consistent with the fact that the World Bank Group had no dedicated tool in its financial inclusion tool kit designed to provide such an assessment. For example, though a range of financial inclusion issues are covered under the FSAPs, it is seldom the case that a systematic and holistic approach is taken to assess the adequacy of the legal, regulatory, and oversight framework in support of financial inclusion. FSAPs systematically assess regulatory frameworks and supervisory practices in banking, insurance, capital markets, and other areas (such as AML/CFT, payment and settlement systems), but they do so from a stability perspective. Furthermore, unless financial intermediation targeting the lower end of the pyramid is conducted by banking institutions, an assessment of the adequacy of the oversight of such activities undertaken by other types of financial intermediaries—for example, MFIs, SOCCAPs--is unlikely to be undertaken unless they may be thought as potentially posing a threat to financial stability.

3.66 **From 2000 to 2013 about 70 percent of the countries that have performed an FSAP have also undertaken at least one assessment through technical notes (TNs) covering aspects related to financial access, SME finance, financial infrastructure or other financial**

inclusion related issues. Financial inclusion related Technical Notes were particularly prominent 2002 and 2005, followed by a weakened demand for them during crisis years of 2008-2009. In 2013, financial inclusion related Technical Notes were back to the 2002 level, according World Bank Group's own analysis. (Figure 3.5). Focus of these technical notes was mainly on general access to finance and SME finance (39 percent), financial infrastructure (29 percent) and housing finance (19 percent). Microfinance and credit unions were less frequently the subject of the analysis, that is, in 10 percent and 3 percent of cases, respectively. Thus the overall picture is of spotty and inconsistent coverage, especially in terms of services to poor households and microenterprises.

Figure 3.5. Financial Inclusion Related Technical Notes in FSAPs



Source: Coverage of Financial Inclusion in FSAPs – Evolution during 2000-2013, The World Bank Group, undated

3.67 When looking at how often financial inclusion-related terms were used in FSAPs, this World Bank Group analysis found an increase in the occurrence of such terms. In this context it needs to be recognized that the World Bank is also in the process of ramping up its analytical support in the areas of consumer protection and financial literacy. In addition to the Global Survey on Consumer Protection and Financial Literacy, the World Bank has programmed 27 advisory services and analytical support projects globally to diagnose consumer protection and financial literacy aspects at client countries, with completion dates FY15-18. This is a quite sizable program, given that the World Bank Group traditionally implemented about 25 AAA projects per year during FY07-13. However to date, IEG found that there are FSAPs where reviews of consumer protection practices and credit information systems have been undertaken, but their findings are not integrated into a comprehensive financial inclusion diagnostic.

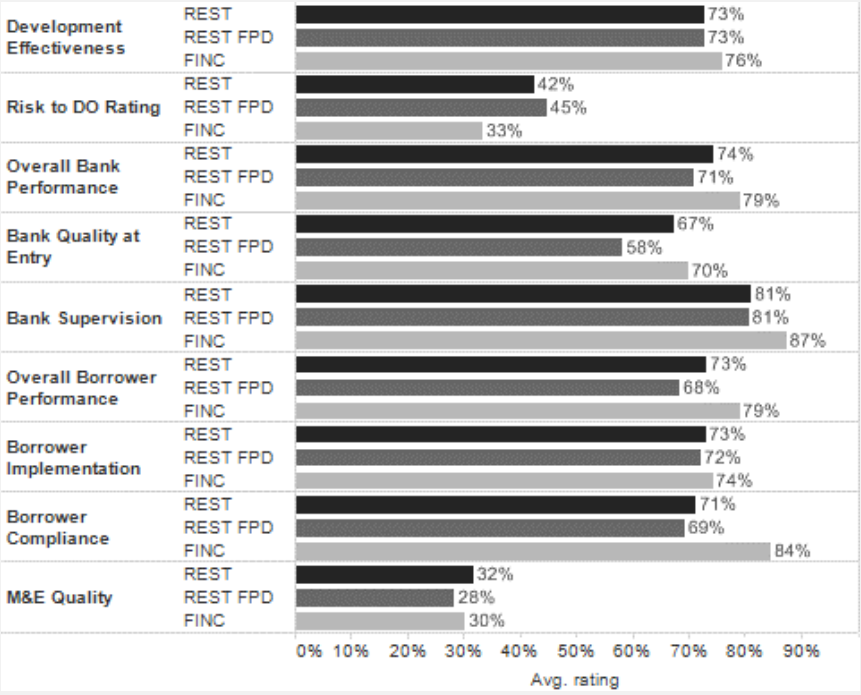
3.68 **The momentum of increased attention to financial inclusion topics could be seized to continue develop – and eventually implement – a more holistic and systematic diagnostic tool.** Such a diagnostic could be used in country work at a time when a World

Bank Group major intervention with significant financial inclusion content may be set to start or it could be conducted at certain time intervals (for instance, five years) to take stock of evolving challenges and the emergence of new products and businesses. The lack of a systematic diagnostic is a particular concern in areas where prudential regulations would not be applied. With the growing importance of mobile technology, for example, stability and consumer protection issues related to Mobile Network Operated (MNO)-led mobile financial services systems will have to be incorporated in country diagnostics. As many of the yet unbanked live in rural areas, savings and credit cooperatives which are of particular importance for the rural poor, will have to be covered by such assessment frameworks as well.

3.69 **Work quality of World Bank lending in support of policy reforms was generally strong**. Almost 88 percent of projects were rated satisfactory for quality at entry and strong supervision. Only M&E lagged, with only 56 percent of projects rated at least moderately satisfactory. Looking at the potential drivers of development outcomes, financial inclusion projects are as effective as or more effective developmentally than other Finance and Private Sector Development projects and the rest of the World Bank portfolio. Overall Bank performance on these projects is strong, quality of entry is better than average, and supervision and borrower performance and compliance are excellent. Even the weakest characteristic for upstream financial inclusion projects, M&E, is no worse than the one of the rest of the FPD portfolio (Figure 3.6).

3.70 **The World Bank's self-evaluation of its AAA work finds it be fairly successful in stimulating policy reform.** AAA work is not subject to a rigorous evaluation regime, including an independent validation. World Bank self-evaluations activity completion summaries, exported from an internal database, hence provide the sole guide of quality and results. These self-ratings indicate success in about 70-80 percent of cases, with the exception of a few areas that stood out: supporting the preparation of new loan was highly successful in about 90 percent of cases; by contrast, shifting donor policies was only successful in half of the 16 cases.

Figure 3.6. Work Quality Factor of World Bank Lending for Policy Reform



Source: IEG portfolio analysis.

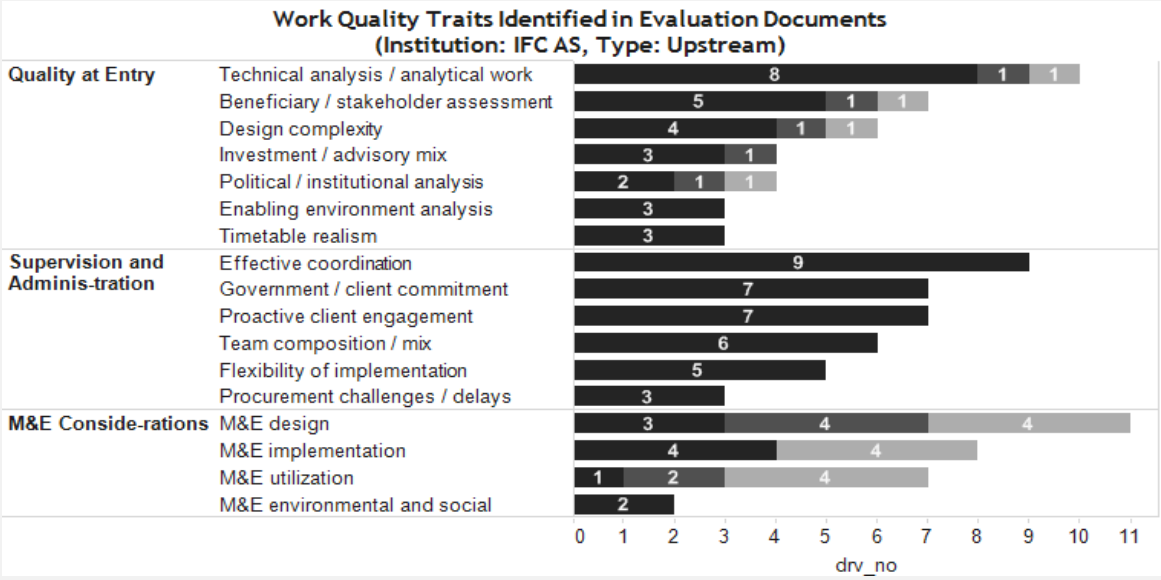
3.71 **The evaluation has documented several instances of valuable IFC AS interventions fostering the establishment of important elements of an enabling environment.** Some of these instances include where IFC investments into credit bureau entities revealed the need to upgrade the regulatory framework for financial contracting infrastructure. Although in some cases IFC was viewed as an "honest" interlocutor by country authorities, there were instances where that was not the case. Nevertheless, there is important value in the identification of regulatory shortcomings and hence in bringing such findings to the attention of World Bank colleagues that may be working on financial inclusion issues in the country. With the reorganization of work under the global practices, much of the staff providing "government facing" advisory services has moved into the Finance and Markets Global Practice. Thus, it will be all the more important that any information exchange between IFC investment and those providing government-facing advisory services be done in a structured way so that it does not fall through the cracks, while observing safeguards against conflict of interest.

3.72 **Similar to the World Bank, IFC's work quality was also high for upstream advice.** At quality at entry stage, adequate technical analysis/analytical work and sound beneficiary/stakeholder assessment were identified as the most critical factors across different IFC AS upstream interventions (Figure 3.6). For example, India's Omidyar project

for a microcredit registry benefitted a great deal from a sound technical analysis. Similarly, the success of the warehouse receipts project in Indonesia (financial infrastructure) can be greatly attributed to the sound technical analysis at the time of "entry." The analysis reflected in the sound design complexity and took into account the status of warehouse facilities in the country, existing market infrastructure, the agribusiness sector among others – all of this analysis being imperative for the needs assessment and the subsequent delivery of benefits to the project beneficiaries.

3.73 It is worth noting here that most of the technical analyses for these projects were closely associated with beneficiary needs assessment, that's why assessment was identified as the second most recurring driver in the evaluated upstream advisory services projects. Bank Group-wide collaboration plays a key role in the success. The CIC project in Ethiopia is an example of that close collaboration, where the World Bank provided funded to the National Bank of Ethiopia for the upgrade of its system, and IFC provided the advisory services. Again, an adequate technical analysis during the time of entry ensured the quality at entry and the eventual success of the project.

Figure 3.7. Work Quality Factor of IFC Advisory Services Support for Policy Reform



Source: IEG portfolio analysis.

3.74 **During supervision and administration, effective coordination and securing government commitment and proactive client engagement were seen as the drivers of success**. Most the projects mentioned, including in Cambodia, Ghana, India, and Indonesia, benefitted from effective coordination between the various stakeholders involved in the interventions. This included but was not limited to clearly defining roles and responsibilities of both internal and external stakeholders, proactive follow up and combined responsibility

towards the smooth implementation of the projects. A relevant example of this was the iScore Egypt project, where IFC AS helped the first private credit bureau in Egypt to smoothly roll-out its services. A major contributing factor of success for this project was the effective project management, and coordination with all stakeholders involved, including bilateral organizations like USAID.

3.75 **However, the lack of an adequate M&E design, implementation, and utilization made it difficult to attribute success of IFC interventions.** This was the case in at least five projects, where it was determined that M&E considerations were inadequate, and were mixed/average in four advisory projects. In most of the cases, weak M&E only distorted the understanding of IFC's contribution towards impact achievement in relation to upstream financial inclusion objectives. However, there were cases like the ATF-Cambodia CMA Advocacy, where the weak M&E considerations ended up becoming a contributing factor to the failure in achieving the regulation and legislation objectives of the intervention.

Conclusion

3.76 **The Bank Group has been able to leverage its impact at the country level through global partnerships.** Partnerships clearly extend the reach, resources, and influence mobilized to promote access to financial services by the poor and microenterprises. Organizations like GPFI, CGAP, AFI, and CGI have a strong standing with relevant stakeholders, and can provide opportunities for knowledge sharing, policy influence and piloting and disseminating innovative approaches. Sector leaders in the Bank and IFC make clear that partnerships play a large role in the Bank Group's goal of universal financial access and longer-term inclusion goals as well. At the 2015 Spring Meetings, President Kim stated that, to promote financial access, "The World Bank Group's role is to convene and energize a coalition of partners—and also to step up our work."

3.77 **The World Bank Group has been able to have a strong impact on global standard-setting bodies** through its partnerships with CGAP and the GPFI (through the Regulations and Standard Setting Bodies subgroup). This work engages with six global standard-setting bodies: the Financial Action Task Force; the Basel Committee on Banking Supervision; the Committee on Payments and Market Infrastructures (CPMI); International Association of Insurance Supervisors; International Association of Deposit Insurers; and (since 2013) International Organization of Securities Commissions.

3.78 **At the same time, these partnerships bear costs and risks:** they require resources and senior staff of the World Bank Group, can inhibit or dilute its own "branding," and may at times pursue goals or methods not squarely aligned the Bank Group's own strategy. Partnerships involve compromise and coordination. In the absence of results frameworks or rigorous quality control, there can be reputational risks. Recognizing the necessity of such

partnerships to achieve its objectives, the World Bank Group should nonetheless encourage its partner organizations to adopt high standards, especially with regard to their accountability and learning systems of the partner organizations. CGAP has only recently developed a clear results framework, and IEG did not come across results frameworks, independent reviews, or evaluations of other partner bodies, beyond a progress report.

3.79 **With regard to the World Bank Group's country level engagement on policy reform, the evaluation concludes that the World Bank Group plays a significant role, but that its approach to identify and tackle constraints to financial inclusion is neither systematic nor comprehensive.** The World Bank Group played an important role in identifying major legal and oversight gaps and most project were also executed with good work quality. AAA work delivery an important and often successful contribution to the policy reform process, based on World Bank's own self-rating scheme. However, it is questionable that the identification of constraints and priorities was part of a holistic assessment of the adequacy of the various elements of the financial inclusion framework. Some areas, such as retail payment systems, remittances and financial infrastructure were covered by structured surveys or recurrent diagnostics. In other areas, stronger analytical support is planned, such as in the area of consumer protection and financial literacy. At the same time, there is no dedicated tool in the World Bank Group financial inclusion tool kit designed to provide this type of assessment in a comprehensive manner. Currently, the Bank Group is in the process of developing potentially important instruments such as the Financial Inclusion Support Framework and a new template for a financial inclusion module of Financial Sector Advisory Programs (FSAPs). The lack of a systematic diagnostic is of particular concern in areas where prudential regulations would not be applied. Given the emergence of new technology as a potential solution such diagnostics would have to address also stability and consumer protection issues of Mobile Network Operated (MNO)-led mobile banking systems – currently not systematically part of a country assessment. For the rural poor, savings and credit cooperatives often matter; yet, the Bank Group's country diagnostic pay uneven attention to these important financial inclusion tools. Therefore it would seem appropriate that the current increased attention to financial inclusion is seized to develop and implement a holistic and systematic diagnostic tool for financial inclusion.

3.80 **IFC Advisory Services interventions were valuable in fostering the establishment of important elements of an enabling environment, such as financial infrastructure and financial literacy.** Such projects benefited from high-quality analytical work and stakeholder assessments and were often executed in sound collaboration across the Bank Group. However, lacking an adequate M&E system made attribution of success to IFC interventions difficult. In view of the recent restructuring it is assumed that these interventions be executed by the Global Practices and no longer by IFC Advisory Services. IFC senior management envisages IFA Advisory Services mandates being linked to investment opportunities, which is difficult to argue for upstream interventions. Going forward, it thus appears warranted that

such mandates not be dropped but rather that adequate funding mechanisms be found. To the extent that some AS functions have migrated to World Bank Group global practices, lines of communication should be built (with appropriate safeguards) to assure that information generated from investment operations usefully inform upstream work.