4. Did Financial Inclusion Interventions Deliver to the Poor?

Highlights

- Overall, World Bank lending activity heavily focuses on the most excluded countries. While the majority of technical assistance focused on credit, a significant – and slightly increasing – share focused on payments, savings and insurance.
- The World Bank has not reconciled its approach to subsidization nor adopted a uniform philosophy across networks (now global practices) and activities.
- IFC's investments in financial inclusion are small, but they occur in markets where they matter. They struggle with achieving adequate business performance, but exhibit remarkable private sector development effects and good economic sustainability. The root causes for their low profitability are higher start-up costs and slower loan growth. IFC's work quality was good.
- Microloans are a relatively small services line of IFC-supported banks, accounting for 5-10 percent of their mixed loan portfolio, with the rest supporting client taking out larger loans, including SMEs. This is not necessarily a bad thing if it strengthens financial markets. At least SMEs are likely to benefit from such loans – and eventually microenterprises may benefit from the strengthening and deepening of the smaller end of the commercial finance market.
- IFC advisory projects helped build MFI capacity, assisting in transformation into licensed banks and in the development of new products. They stand out for their high impact achievement – at least in relative terms.
- The small number of countries with financial inclusion strategies in place during the portfolio period suggests a lot of potential for gaps, lack of complementarity and sequencing, and ad hoc-ism.
- A continuing challenge in evaluating downstream interventions across the entire World Bank Group is the lack of information on impact at the beneficiary level.

4.1 **This chapter examines if and to what extent the World Bank Group support to the provision of financial services has improved access to financial services to low-income households and microenterprises.** The analysis focuses on financial inclusion interventions that provided advice to MFIs or funding for the provision of services, either through line of credits (to apex institutions or directly to MFIs) or through direct investments in MFIs.

Collectively, these interventions are called "downstream support" to differentiate them from upstream policy support, treated in Chapter 3.

4.2 Organizationally, the chapter covers interventions of World Bank, IFC Advisory Services that target MFIs,[36] IFC investments, and MIGA's guarantees in support of MFI financing. None of MIGA's guarantee projects has yet been evaluated; hence the analysis can only look at portfolio data and cannot present an assessment of MIGA's effectiveness. Chapter 4 concludes with an overview of World Bank Group activities outside the credit space. Because of the rapidly growing importance of technology in financial inclusion, the section on payments strongly focuses on mobile money and mobile financial services.

4.3 **To assess the success and to learn from these interventions, the analysis within each section is presented stepwise.** First for each institution the type of interventions are presented and then their development outcomes assessed. Once all institutions have been discussed (World Bank, IFC investment and advisory, and MIGA), their ultimate effects on the provision of financial services are discussed based on the available data.

4.4 **The extent to which the World Bank Group has supported countries with financial inclusion interventions during the last six years did not necessarily reflect in changes in financial inclusion, when analyzing the correlation of Bank Group interventions with Findex data 2011-14**.[37] For the entire World Bank Group portfolio, Bank Group projects broadly did better in countries with more financial depth and better credit information; however, there is no statistical link between the development outcome of financial inclusion projects (a much smaller subsample) and these explanatory variables. Looking at the Findex Data 2011-14, financial inclusion went up for the bottom 40 percent in countries where the Bank Group had more projects; however, there is no statistically significant relationship between financial inclusion going up and more financial inclusion projects.

4.5 Other things being equal, inclusion rose more in countries with shallower financial sectors; and lower per capita GDP; but less in FCS countries. There are payoffs in focusing on credit information and on deepening the financial sector, as it seems to enhance the World Bank Group's overall development effectiveness. There are payoffs in focusing on poorer countries as they showed an increased rise in financial inclusion rates (probably also because they had more to catch up). FCS countries remain more challenging. The next section provides a more detailed assessment of interventions for each Bank Group institution.

World Bank Support

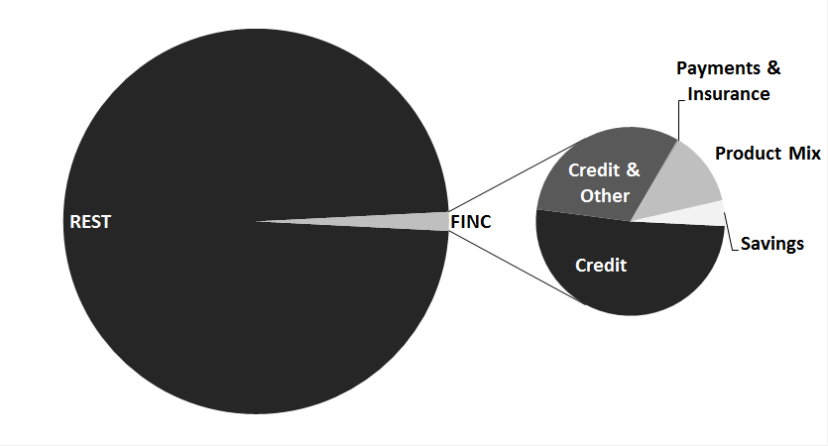
4.6 **The World Bank's engagement in financing projects and conducting analytic and advisory work to strengthen financial inclusion is in theory grounded in national-level financial inclusion strategies** based on a careful stocktaking of country conditions and in full

cognizance of the interlinkages of financial inclusion with financial stability, financial integrity, market conduct, and the financial capability of consumers.[38] In practice, as noted in the discussion of upstream engagement, in a number of countries IEG sees a less systematic set of activities in place downstream, often not tightly linked to each other by an overarching strategic framework. Nonetheless, in the financial inclusion portfolio aimed at poor households and microenterprises, there is a strong focus on the countries with the highest rate of exclusion, and often (and increasingly) operational portfolios support a diversity of services.

OVERVIEW AND RELEVANCE OF DOWNSTREAM SUPPORT

4.7 **Given the diversity of the World Bank's portfolio, IEG found only a small percent of the overall portfolio focused on financial inclusion: 2 percent in volume and 6 percent in term of numbers of projects.** Most World Bank lending is focused "upstream" at the policy and institutional framework level, apart from technical assistance. Overall, almost two-thirds of the number of projects intervening downstream to provide direct financial services deliver credit (Figure 4.1), but a significant share are focused on savings after 2010 (Figure 4.2).

Figure 4.1. World Bank Financial Inclusion Interventions as a Share of Total Lending Portfolio and by Type Financial Services



Sources: Business Warehouse, IEG portfolio analysis.

4.8 **In spite of a marked increase in lending activity between the early portfolio period and the 2010s, only 22 downstream projects are seen financed in the 2010-13 period, with significantly more lending focused upstream.** Technical assistance is more common than lending, and showed a similar increase in the 2010s, but is again mostly focused "upstream." This may reflect a comparative advantage of the World Bank in focusing on policy and institutional aspects of financial markets, and then letting market forces, IFC, or other donors focus more downstream. It also reflects the focus on more nascent markets, where getting a policy and institutional framework in place is an appropriate priority as a precondition to

later financing downstream (see below). IEG's analysis in case studies of the sequencing of upstream and downstream work suggested it was not always systematic, but that, often, either sectorally or in a given type of financial service, upstream work preceded downstream interventions.

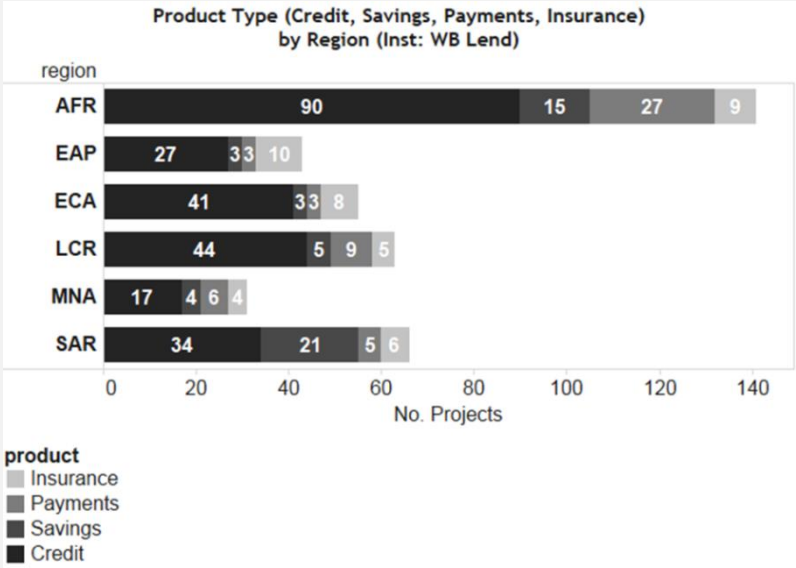
4.9 **Although the majority of downstream technical assistance focused on credit, a significant share (although a small number of activities) focused on payments, savings and insurance.** However, with growing evidence on the limited value of microcredit to most beneficiaries, as well as growing evidence of the benefits of savings and payments services (chapter 1), it might be expected that proportions of the portfolio would have shifted more dramatically. Yet, whether measured by number of projects or their commitment value, over three-quarters involve the provision of credit or credit combined with other services.

4.10 **However, credit is not the whole story – in fact, only 24 percent of projects delivering credit had credit as their major component**. In 54 percent of projects, credit played a more minor role. This contrasts sharply with projects where a mix of financial services was delivered or where payments, savings and insurance were the focus.

4.11 **Overall, the World Bank's downstream lending activity heavily focuses on the most excluded countries**. As demonstrated in Chapter 2, fully 71 percent of financial inclusion lending projects and 72 percent of commitments are in countries in the lowest quartile of financial inclusion, based on the Findex measure of the bottom 40 percent of the population having an account at a formal financial institution (Figure 2.5a). In this respect, the portfolio is highly relevant to the Bank's objective of shared prosperity for the bottom 40 percent. In fact, 99 percent of the World Bank's lending portfolio is focused on the bottom two quartiles of countries in terms of financial inclusion (that is, the countries with the highest rates of formal exclusion).

4.12 **Downstream AAA work is similarly focused, although less concentrated in the bottom quartile of inclusion, with 63 percent in the lowest quartile**. The portfolio distribution is also well ahead of the microfinance market (indicated in Figure 2.5a by the horizontal MIX bar), suggesting presence in providing services where micro-financial markets are less mature. This focus on countries with low levels of inclusion is also manifested in a regional pattern, with Sub-Saharan Africa leading all other regions in terms of number of projects (Figure 4.2).

Figure 4.2. A Large Part of World Bank Portfolio is in Africa—A Majority is Cred

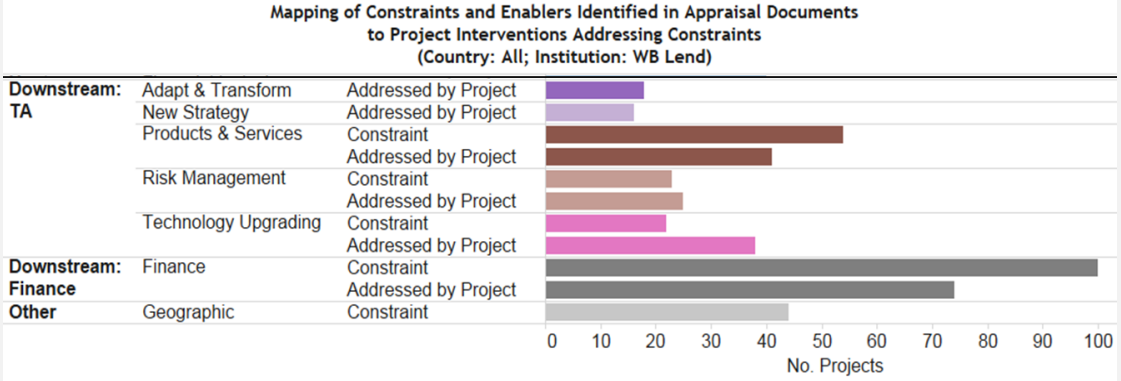


Sources: Business Warehouse, IEG portfolio analysis.

4.13 **Although data on whether interventions matched specific country needs are generally limited, the small number of countries with financial inclusion strategies in place during the portfolio period suggests potential for gaps, lack of complementarity and sequencing, and ad hoc approaches.** For example, IEG's Tanzania country case study found very little activity in the rural financial market, in spite of the fact that most of Tanzania's poor live in rural areas and are served primarily by somewhat precarious SACCOs. Some of this is driven by the priorities and capacity of the counterpart government – for example, in Ghana, the Bank focused strongly on removing access to finance constraints in the agriculture and agribusiness sectors as well as for MSMEs (although with mixed success).

4.14 World Bank projects often cite prior analytical or technical work, however at times the focus can be selective. In India, a seminal 2004 study galvanized both Bank and counterpart activity in providing financial services to the poor. However, since then, there has been no comprehensive analytic work, save for a thin addendum to an FSAP. There is certainly a fairly good fit between problems the World Bank identifies as important in project documents and the focus of projects in financial inclusion (Figure 4.3), although finance is somewhat more commonly identified as a problem than it is addressed.

Figure 4.3. Fit between Constraints Identified in World Bank Project Appraisals and Those Addressed in Projects



Source: IEG portfolio analysis.

RESULTS AND SUSTAINABILITY

Development Outcomes

4.15 **Very few uniquely downstream projects were evaluated during the period**: 14 downstream technical assistance projects and 6 downstream finance projects. World Bank loans, IFC investments, and MIGA guarantee projects are subject to a regular results M&E. These include a self-evaluation, followed by an independent validation by IEG. Based on this, development outcomes are assessed of these interventions on a routine basis at the time of operational maturity, project completion, or, for World Bank loans, at project closure, that is, once the loan is fully disbursed. Using predetermined criteria, development outcome is scored.

4.16 Based on these project-level evaluations, projects using a mix of upstream and downstream or downstream technical assistance and finance in the same project were more common and had more successful development outcomes. Overall, development outcomes of financial inclusion projects corresponding to the portfolio overall (Figure 4.4). However, given the small numbers of evaluated projects in downstream technical assistance and finance, it is hard to firmly establish a trend.

Box 4.1. Upstream and Downstream: World Bank and Bansefi in Mexico

In Mexico, after a series of failures of credit cooperatives adversely affected consumers (especially in rural and marginal areas), the World Bank worked with the government to support sectoral reforms through both upstream and downstream support, including a series of projects supporting a newly created state-owned bank, Bansefi, created to assist and consolidate the sector.

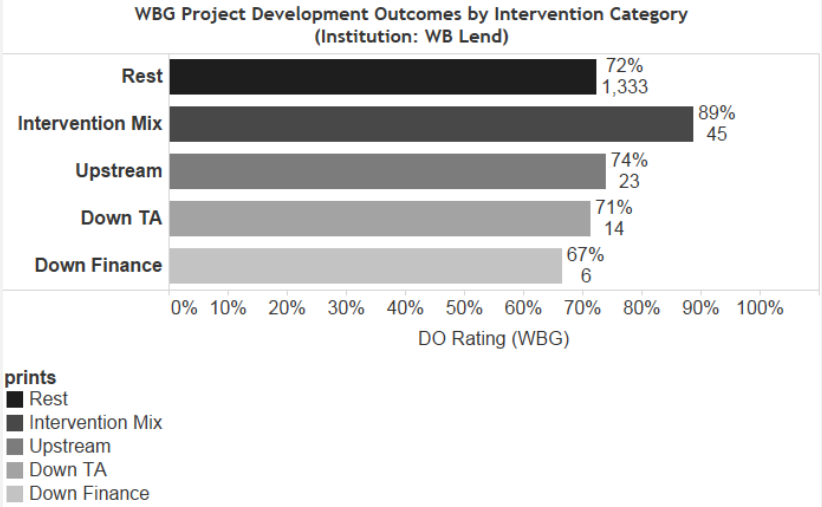
The projects supported both upstream work to restructure and consolidate the credit cooperative sector and to establish a regulatory framework and oversight architecture, and downstream work to provide technical assistance to a large number of individual financial intermediaries in the sector. The result was expanded access to financial services and a broader range of products offered.

The World Bank Group-supported cooperatives to become accredited and helped Bansefi to reorganize the sector to deepen access to financial Services. According to the CNBV, about 135 SOCAPs have become accredited and are now formally reporting to the supervisor.

Source: IEG country case study Mexico.

4.17 **A continuing challenge in evaluating downstream interventions is the lack of information on impact at the beneficiary level.** Commonly, only outputs or outcomes are measured, as outlined more in detail in the last section of the chapter.

Figure 4.4. Development Outcome Ratings of World Bank Financial Inclusion Interventions



Source: IEG portfolio analysis.

Should the World Bank Subsidize Financial Inclusion?

4.18 **Some World Bank Group financial inclusion interventions subsidize service delivery in a variety of ways.** The 2007 Financial Sector Strategy states: "[T]he developmental mission of the Bank Group necessarily leads it to focus on market and institutional infrastructure—including contract rights, contract enforcement institutions, and key market infrastructures

(payments systems, credit bureaus, accounting and disclosure standards, corporate governance, etc.)." (World Bank 2007, page viii)

4.19 **Nonetheless, the Bank Group has recognized that, in some regions and countries more than others, state engagement in the financial sector is higher** and that to be engaged in financial sector development requires engagement with state providers of financial services. Thus, over time it has provided technical assistance and funding (such as lines of credit) channeled through state run financial institutions. At times this may result in contradictions, for example, in countries where the World Bank is channeling financing through state institutions while IFC is attempting to build up commercial institutions serving an overlapping client base. The example of Turkey was noted in the recent IEG SME evaluation, but the India case study carried out for the present evaluation establishes additional examples (see, for example, Box 4.2).

Box 4.2. Questions of Sustainability in Financial Inclusion Services through Rural Self-Help Groups in India

The PPAR for the World Bank's Andhra Pradesh Rural Poverty Reduction Project raises questions about the sustainability of the political economic and related social structure of subsidies put in place under the World Bank supported program. A major problem was that the extremely popular—but expensive—program reaching into every village invited political interference including interest rate subsidies and full waivers and promises of loan waivers. The latter, offered by both major political parties in a recent political campaign, "changed … the SHG relationship with the Banks, group credit ratings, and it resulted in high non-payment fees."

In addition, the heavy fiscal burden of the government-affiliated Society for the Elimination of Rural Poverty running the self-help groups combined with the expense of interest rate subsidies called the sustainability of the self-help group program into question when, with the "bifurcation" of Andhra Pradesh into two states, the fiscal challenges of both new states became evident. The Project Performance Assessment Report sharply questions the sustainability of the subsidies: *Heavily subsidized interest rates, rebates, and waivers raise questions about the long-term viability and sustainability of the bank linkages portion of this program. They also run the risk of allowing for the politicization of an otherwise formidable platform for women's and families' social and economic development.*

Source: IEG forthcoming.

4.20 **Similarly, the Bank Group has tended to discourage subsidization of the interest rates in most circumstances.** A 2002 CGAP Donor Brief captures the conventional wisdom of the time: "Subsidized interest rates generally benefit only a small number of borrowers for a short period. Interest rate subsidies are an inappropriate use of donor or government funds because they distort markets and can encourage rent-seeking. Programs that target specific populations with subsidized interest rates have generally suffered low repayment rates, institutional dependency, and limited growth" (CGAP 2002).

4.21 **However, initial subsidies are accepted.** The CGAP same brief mentioned above accepts initial subsidies to help MFIs "reach the scale and efficiency needed to cover its costs

from interest income." For the World Bank, subsidies have been an accepted instrument for expanding financial access to the poor in World Bank policy under certain conditions. For example, OP 8.30, which governed financial intermediary lending from 1998 to 2014, stated:

> In some cases (for example, poverty reduction programs), subsidies may be an appropriate use of public funds. The Bank supports programs involving subsidies only if they: (a) are transparent, targeted, and capped; (b) are funded explicitly through the government budget or other sources subject to effective control and regular review; (c) are fiscally sustainable; (d) do not give an unfair advantage to some [fiscal intermediaries] vis-à-vis other qualified and directly competing institutions; and (e) are economically justified, or can be shown to be the least-cost way of achieving poverty reduction objectives. Subsidies that do not meet these tests are phased out, or are substantially reduced, during the course of the FIL (World Bank OP 8.3).

4.22 **In this qualified acceptance of subsidies, the World Bank Group deviates significantly from the IMF**. The World Bank apparently accepts various kinds of subsidies so long as they abide by these standards. This deviates significantly from the IMF, which cautions sharply against price subsidies: "Explicit and implicit price subsidies burden the government budget and can aggravate the country's fiscal position. …Price subsidies reduce allocative efficiency by distorting relative prices. …The methods used to finance subsidies—higher taxation or higher deficit financing—further worsen resource misallocations….. The capture of benefits of subsidies by middle- and upper-income households raises issues of equity and fairness…. Subsidies for certain activities—agriculture, energy consumption, and timber exploitation—can contribute to environmental degradation" (Gupta and others 2000).

4.23 **A key challenge in subsidizing financial services to the poor can be that the growth of subsidized services may be limited by the fiscal capacity and political willingness of the state (or donors) to support them.** In the case of Andhra Pradesh, the cost to the state government of the large bureaucracy supporting the self-help group system and of direct subsidies to reduce interest rates to zero on loans to self-help groups and small farmers contributed to high deficits, while the politics around subsidized credit led to promises of loan forgiveness that undermined credit culture (that is, repayment discipline).[39]

4.24 **Subsidies can be more or less efficient, depending on how they are designed.** In economic text books, the most efficient subsidy is defined as a lump sum subsidy, which makes the recipients better off because they can choose to spend it in ways that maximize their happiness. Subsidies of a particular good or service are seen as inefficient because they distort prices and only can be realized by a recipient by consuming more of the subsidized service or good. Thus a poor person can only benefit from a subsidy on credit by borrowing. On the one hand, this may lead them to consume more credit than they would otherwise

want, potentially to the neglect of other goods and services like food, housing and education. On the other hand, if the person has no use for credit, they may not benefit at all from the subsidy.

4.25 **So in purely theoretical terms, the poor would benefit more from a cash transfer than from an equivalently valued subsidy on interest rates.** CGAP notes that if a donor's objective is to transfer resources to poor beneficiaries, microcredit might not be the most effective tool. Other types of interventions such as support for social services and even grants might be more appropriate for extremely poor or destitute populations.

4.26 **Governments may choose to subsidize credit to overcome market failures** which lead either consumers to demand or providers to supply suboptimum amounts of credit (or other financial services). For example, because of asymmetric information, borrowers may lend less to the poor than they might if there were perfect information. If governments find it too difficult or costly to achieve better information, they may choose a subsidy to induce markets to more closely replicate an optimal level of credit provision. Or governments may decide that the poor ought to consume more financial services than they do or are able to, given the existing market. Some institutions, such as credit bureaus, may have public good aspects that lead to their under-provision if left to market forces.

4.27 **In such cases, a question arises on how to structure the subsidy.** One approach would be a one-time subsidy to the consumer or supplier to reduce the initial cost of establishing an institution, account or a transaction. Some argue that this is likely to be less distorting of price signals than an ongoing subsidy of the price of financial services. In addition, the ongoing subsidy may bring certain political economy risks, such as potential lobbying for its maintenance by beneficiary groups beyond the point where it has delivered its intended benefits or diversion and capture of the stream of subsidy by certain influential groups not intended as beneficiaries.

4.28 **What is clear from the World Bank Group's portfolio is that, in practice, there is no consistent philosophy on subsidy guiding it.** This is why very different approaches may be found across institutions and networks. In countries where IFC is financing private commercial institutions, the World Bank may finance public institutions as the vehicles for delivering financial services to the poor. In India, rural women's self-help groups are financed on a different basis than are beneficiaries of microfinance institutions, with active subsidization and suppression of interest rates and state subsidization of the organizational costs of the self-help group system, as well as project-financed community funds providing further subsidy. For the Bank Group, in the same country, to be financing both commercially-based and commercially financed institutions and state-supported and heavily subsidized institutions targeting many of the same clients illustrates the lack of a coherent institution-wide approach.

Box 4.3. Mongolia: Commercial Services Model Works Best

The Mongolian Sustainable Livelihoods Project (P067770) experimented with three approaches to help rural households manage risk – (i) subsidized credit under the Pastoral Risk Management component; (ii) credit offered on commercial terms under the Microfinance Development Fund; and (iii) rotating funds operated by local authorities. The Fund approach subsidized the introduction of new financial products, but offered them at commercial rates. IEG's ICR Review found that, "of these three approaches, only the MDF approach proved viable and sustainable. The performance of the subsidized credit and the RLFs was weak, the former having low repayment rates and weak administration and the latter dropped from the project due to weak performance. The MDF did demonstrate the feasibility of increasing micro-finance outreach through the commercial financial sector."

Source: IEG 2008.

4.29 **Another question confronting the Bank is whether it should be supportive of government initiatives that involve subsidies to achieve financial inclusion.** One way to achieve large numbers in financial access is to roll out massive government-led schemes, for example, through the establishment government to person payment accounts or through "no frills" bank accounts in the public or private banking system. CGAP studies of Brazil, Columbia, Mexico, and South Africa found that government to person payment schemes required recurrent operational subsidies from the government to make the accounts profitable for private banks to offer and maintain.

4.30 India's massive rollout of the *Pradhan Mantri Jan Dhan Yojani* scheme offers additional cautions – the World Bank finds that 72 percent of accounts opened under the scheme have zero balances (implying dormancy) (Demirguc-Kunt, Klapper, Singer and Oudheusden 2015). This suggests that unless services are properly tailored to the poor, effective inclusion may be limited. There is also mounting evidence of the cost – the Indian Banker's Association stated in January 2015 that the initial round of no frills accounts cost the issuing banks over $300 million.[40] Other reports indicate that most of these accounts were issued by state-owned banks, while private banks have been slow to issue such accounts, further signaling questions about commercial viability.[41] The Banker's Association states that once public subsidies flow through the accounts, they may begin to pay for themselves.

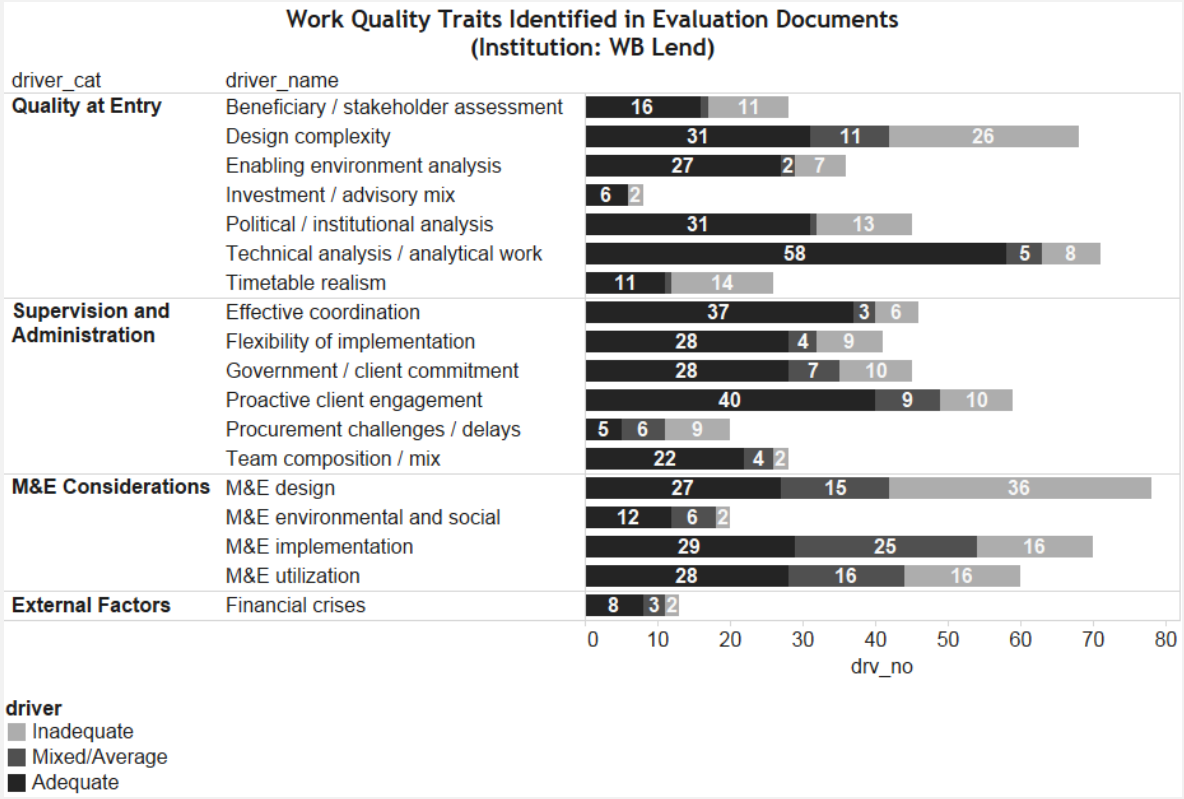
4.31 **Subsidization is likely to remain an issue going forward despite technological progress that eventually may enable reaching the very low end of the retail market in a sustainable manner.** All this creates important questions for the World Bank that need to be answered at a strategic level**.** Does a program that most beneficiaries lack the incentive to use and that private banks lack the incentive to offer provide the basis for long-term and high quality financial inclusion? If the Bank's strategy is to build sustainable markets for financial services, is this a step in the right direction? And if subsidies are justified to reach the poor,

can they be designed in ways so that price signals for efficient allocation and use of services are not lost?

Drivers of Success and Failure, Work Quality, and Sustainability

4.32 **IEG's review of the evaluated portfolio finds many areas with relatively few problems, several of which have gradually been addressed.** Design complexity (discussed below) is one of the two most frequently cited weaknesses of World Bank lending projects in financial inclusion, at least during earlier periods, that is, for projects approved FY99–08. At the entry level, inadequate timetable realism and beneficiary assessment are also fairly common even though an improvement trend can also be noted toward the end of the evaluation period. In terms of supervision, problems with government and/or client engagement are most commonly cited as problematic. With regard to monitoring and evaluation, the design of M&E has more often been a weakness than a strength of financial inclusion projects, but tends to be better for projects approved recently, that is, FY09-13. Implementation and utilization of M&E are also frequently weak (Figure 4.5).

Figure 4.5. Work Quality Traits Identified in IEG Evaluations



Source: IEG portfolio analysis.

4.33 **One challenge in World Bank lending projects has been excessive complexity, often manifested by too many components and subcomponents,** but also by projects that are inappropriately suited to client government capacity. Consistent with previous IEG evaluations on other topics, the financial inclusion portfolio again demonstrates that more complex designs yield poorer outcomes. Comparing the ratings for all project exited FY07-13, complexity at entry clearly shows that those rated inadequate (38 percent of those rated) for complexity had a 50 percent chance of achieving a negative development outcome rating, versus only 3 percent of those rated adequate (46 percent of those rated).

4.34 Some projects, in trying to achieve a "holistic" approach, add components that can move forward unevenly and require a number of different relationships with different counterpart agencies and different Bank staff. Others may apply an "international best practice" design that is too sophisticated for client capacity Experience suggests that simpler designs in financial inclusion lending, on average, yield superior outcomes.

4.35 **The Global Practice has internalized this lesson, however, during the last few years and design complexity improved.** Projects approved FY09-13 show design complexity is less frequently an issue. For only 2 out of 10 approved and evaluated projects (20 percent) was design complexity an issue during FY09-13, that is, were rated "inadequate", while it previously was an issue for 14 projects out of 31 projects (45 percent) for projects approved and evaluated FY04-08.

4.36 **For M&E the trend is less pronounced. Even though the design of M&E systems improved, usage of indicators remain a challenge.** While for 53 percent of the projects approved and evaluated during FY04-08 (19 out of 36), M&E design was inadequate, it was found inadequate for only 20 percent (3 out of 15) for projects approved and evaluated FY09-13. Similarly, IEG's ratings for project M&E went up from 28 percent rated "successful" for project evaluated FY04-08 to 40 percent for projects evaluated FY09-13. This improvement is in line with World Bank's overall improvement trends in M&E, but reflects substantially less improvement than for FPD projects for which successful M&E ratings moved up from 34 percent for projects evaluated FY04-08 to 50 percent during FY09-13. But what matters most in M&E is its usage. IEG's analysis of the usage of indicators showed that usage did not change over time. In fact for three out of the five indicator categories, it declined. Most indicators (about 50 percent) relate to "financial intermediation" as expressed in, for example, dollar amount lent to MFI clients. Substantially fewer (13 percent) try to assess actual beneficiary effects. In light of these findings, ongoing efforts to improve the M&E systems are important and – once implemented – would enable the World Bank to track progress of its financial inclusion interventions (see later in Chapter 4 for a detailed analysis).

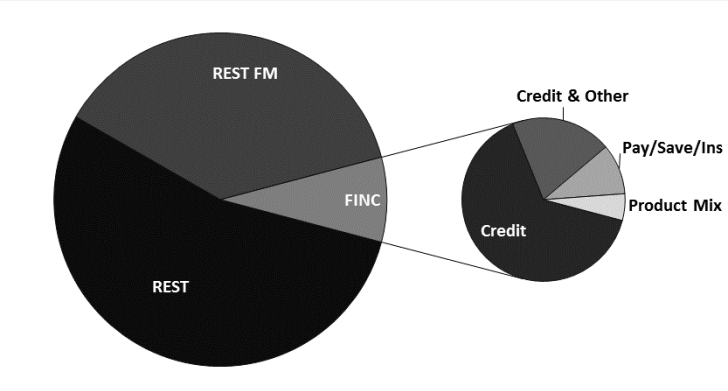
IFC Support to MFIs

OVERVIEW AND RELEVANCE OF IFC INVESTMENTS

4.37 **IFC's investments in financial inclusion are small on average, but they occur in markets where they matter the most.** Overall, the larger proportion of World Bank Group downstream interventions are carried out by IFC. Of 2430 investments, 245 -- or 10 percent -- support financial inclusion as defined in this evaluation (Figure 4.6). These account for 4 percent of IFC's invested volume, indicating a smaller than average investment volume compared to other sectors. As demonstrated in Chapter 2, many of IFC's investment take place in countries with very low inclusion rates and where the average size is very small, indicating that these markets cater to the poor. This reach into low-inclusion countries indicates IFC's high strategic relevance. IFC's investments in MFIs are hence small, but highly relevant.

4.38 **Most investments support either fully licensed banks that are active in the microcredit space or non-bank micro-financial institutions (NBMFIs).** Across most regions, IFC investee MFIs are most commonly banks, follow by NBMFIs. Only in Sub-Saharan Africa do IFC-supported NBMFIs outnumber IFC-supported banks. IFC's investee companies can be greenfields or existing MFIs. IFC invests in greenfield MFIs to create the initial microfinance infrastructure in regions where such infrastructure is missing and/or where existing banks do not lend themselves easily to downscaling. Greenfields also aim to transfer know-how and build local management capacity. Most greenfields are located in Sub-Saharan Africa, followed by East Asia and the Pacific. Latin America and the Caribbean and the Middle East and North Africa, by contrast, see the most IFC investments in existing MFIs. IFC supports these with the intention to see them grow and develop into flagship institutions for the local markets.

Figure 4.6. IFC Investments in Financial Inclusion



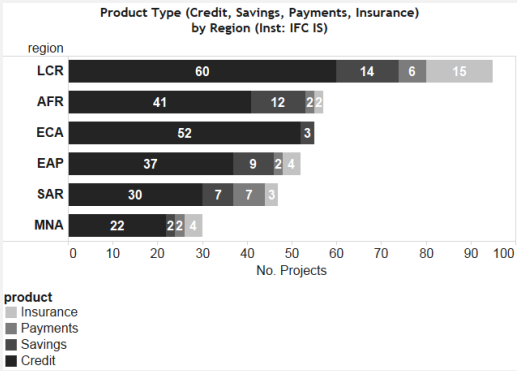
Sources: World Bank database, IEG portfolio analysis.
Notes: FINC = Financial Inclusion portfolio; FM = Financial market portfolio of IFC.

4.39 **IFC's support through investments focuses on the provision of credit.** A full 87 percent of IFC investments have as their primary purpose to provide funding to MFIs so they can lend in the form of microcredits to their clients. Seven percent involve payment or insurance schemes and a very small share of projects focused on savings (Figure 4.9). This pattern is understandable in that non-credit projects would not be require much financing and would thus absorb very little of IFC's funding capacity. Provision of non-credit financial services is, however, important for the poor. IFC can – and does – engage in turning non-deposit taking MFIs into deposit taking institutions. To what extent IFC has an impact on increasing deposit taking will be analyzed later.

4.40 **IFC's investment activity contracted in response to the 2008-global economic crises**. Generally, IFC invested in MFIs through about 35 investment projects annually during the evaluation period. The number of projects halved between 2008 and 2010 in response to the 2008 global economic crisis, then recovered subsequently to about pre-crises levels in 2011. With regard to credit focus, the patterns remained unchanged over the years.

4.41 **Investments were concentrated in the Latin America and the Caribbean Region which was also the region where the most projects occurred that looked *beyond* credit.** With almost 100 projects during the evaluation period FY07-13, this region attracted the most investments, followed by a cluster of regions that received about 50-60 projects each during FY07-13. This cluster encompassed Africa, Europe and Central Asia, East Asia and Pacific, and South Asia. The strong focus on Africa is a result of IFC's effort to establish greenfield MFIs in this region in an attempt to create an MFI industry based on best practice standards. The Middle East and North Africa Region received the fewest projects. Interesting to note, across the regions Latin America and the Caribbean has the highest relative share of projects that include a focus on non-credit projects, that is, savings and insurance schemes (Figure 4.7).

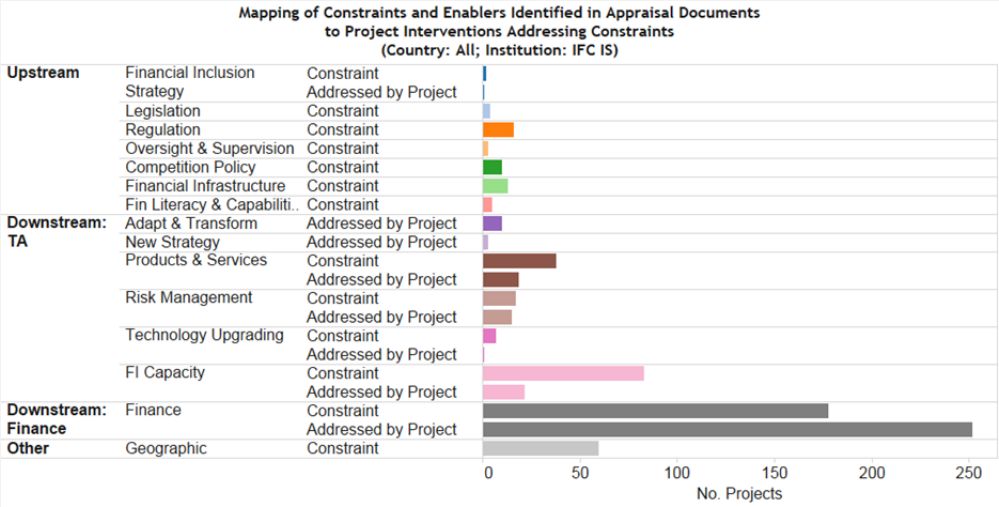
Figure 4.7. IFC Investments across Regions



Sources: Business Warehouse, IEG portfolio analysis.

4.42 **IFC's investments also addressed constraints beyond funding of MFIs, including building capacity in MFIs, transforming them into full banks, downscaling, assisting in product design, and improving risk management**. The majority of IFC investments aimed to provide funding for MFIs; that is, they addressed a financing constraint. However, one-third of projects also identified capacity constraints of MFIs and about 10 percent of projects contain measures to create capacity within MFIs. IFC investments also assist MFIs designing products and services (10 percent of projects) and improving risk management (8 percent of projects) (Figure 4.8).

Figure 4.8. Constraint Addressed by IFC's Investments



Sources: Business Warehouse, IEG portfolio analysis.

4.43 **In addition to its traditional support to MFIs through debt and equity investments, IFC also facilitates the growth of microcredit through other – innovative – mechanisms**, such as credit-linked notes, local currency lending or foreign exchange facilities. These are not part of the evaluation portfolio per se (and represent only a marginal share of IFC's microfinance engagement) but are illustrated in Box 4.4.

Box 4.4. Innovative Approaches in Support of Financial Inclusion

Credit-linked note. Traditionally, IFC has focused on supporting commercially oriented MFIs so they can provide credit to the poor. This has been pursued, as we have seen above, through debt and equity support. Given the tremendous credit gap, IFC has realized that a much greater involvement of the private sector is needed to realize the potential of microfinance. It has therefore taken steps to leverage its own resources to support MFIs by working with the private sector. Initially, this was done through helping specialized private equity funds focused on the microfinance sector. In a next step, IFC started to develop partnerships with large international banks. To encourage and facilitate their microfinance business. These partners engage typically in microfinance business in the context of their corporate and social responsibility program, but at times become interested in mainstreaming this business into their core business. This raised headroom constraints at the

individual client level, requiring them to look for mechanisms to off-load their risks. IFC supports such a client through a "risk participation transaction" using a credit-linked note. This structure transfers a portion of the credit risk of the MFI client held in the book of the client to IFC. Through a Special Purpose Vehicle, the IFC client transfers 80 percent of the risk to that vehicle through Credit Default Swaps, keeping 20 percent on its own.

Local currency lending. Managing foreign exchange risk is a persistent challenge for MFIs, donors and investors. Cross-border debt and equity invested in microfinance brings important benefits for microfinance institutions (MFIs) as it provides longer term debt maturity, often is not available in the local market. However, it comes with foreign exchange risk. MFIs need loans in their own currency to match their revenues as their microfinance clients borrow in local currency. International finance institutions such as the IFC mobilize long-term local currency financing through various derivative and structured and securitized products. For example, a partial guarantee from IFC allowed BRAC (formerly Bangladesh Rural Advancement Committee) to borrow $18 million more in local currency from Citibank in 2008.

Foreign Exchange facilities. Another example of managing foreign exchange risks for MFIs are foreign exchange facilities, which offer MFIs and microfinance investors a method to hedge foreign exchange risk, even for currencies for which hedges are not commercially available. In the longer term, MFIs could reduce their foreign exchange risk exposure by relying more heavily on local currency deposits, but – as this evaluation has found – is often costly and time consuming.

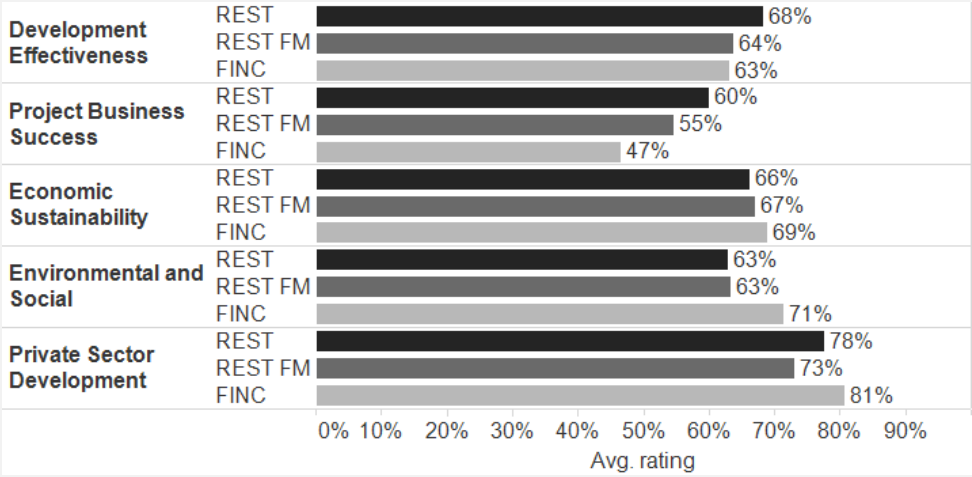
Sources: IEG; CGAP 2010.

RESULTS AND FACTORS OF SUCCESS AND FAILURE

Development Outcomes

4.44 **When looking at development outcomes, financial inclusion investments perform slightly below average.** Of 90 evaluated projects, 57 (63 percent) were rated satisfactory or better--that is, were successful. This compares to a success rate of 67 percent across the entire IFC investment portfolio (Figure 4.9).[42]

Figure 4.9. Development Outcome Ratings

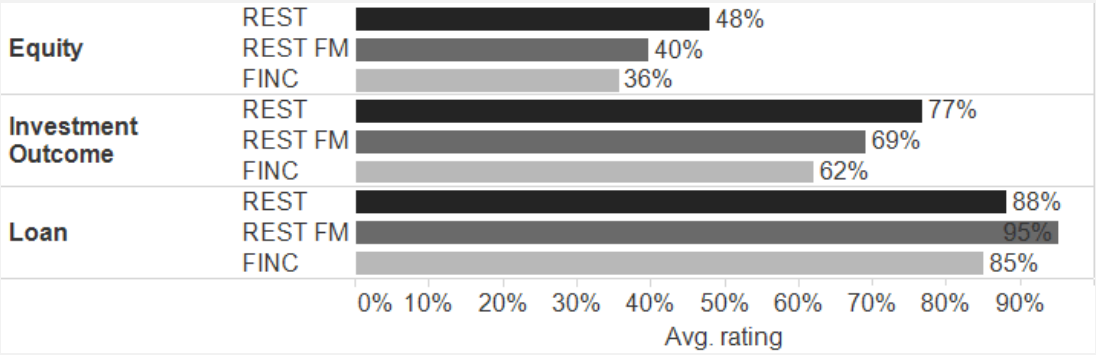


Sources: IEG-validated PSRs, IEG portfolio analysis.

4.45 **IFC's investments in MFIs struggle with achieving adequate business performance, but exhibit remarkable private sector development effects and good economic sustainability.** Looking at the various elements that make up the overall development outcome rating, that is, project business success, economic sustainability, environmental and social compliance, and private sector development (PSD) effect, a revealing pattern emerges. IFC investments in MFIs rate lowest on project business success with less than half of all evaluated projects (47 percent) rated satisfactory or better, compared to 62 for IFC's average portfolio. This indicates that investments tend not to turn profitable in the time frame given, that is, before they are labelled "operationally mature," which is typically two years after incorporation. Project business performance is lowest in ECA with only 27 percent (of a total of 12 projects) rated successful, followed by Sub Saharan Africa with 35 percent (of 19 projects) rated successful. The best project business performance was found in SAR where 3 IFC-supported MFIs were rated successful, or 75 percent of the region's portfolio of in total 4 projects. This has to be contrasted with the high PSD rating of 81 percent of evaluated projects and the relatively high Environment and Social rating of 71 percent (Figure 4.10).

4.46 **As a consequence of their low business performance, IFC's investments also exhibit lower investment outcomes, particularly equity investments.** Only 63 percent of MFI investments yield a successful investment outcome for IFC, compared to 71 percent of the financial sector sub-portfolio and 78 percent for IFC's portfolio as a whole. This relatively low investment outcome for MFIs investments is mainly driven by the investment outcomes of equity investments which are particularly vulnerable, pointing to the risk involved and reflecting the challenges for these investment to turn profitable (Figure 4.10).

Figure 4.10. Relative Low Investment Outcomes of IFC's Investments in MFIs



Sources: IEG-validated PSRs, IEG portfolio analysis.
Note: FINC = Financial inclusion projects of IFC downstream, that is, investments in MFIs.

4.47 **The root causes for the low profitability of IFC's MFI investments were higher start-up costs for greenfields or higher operating costs for existing MFIs and slower loan growth.** Investees typically exhibited higher costs during start-up than expected because of (i) delays in approval by the regulators and significant regulatory risks; (ii) greenfield management fees that can be burdensome for early stage operations; (iii) slow deposit gathering; and (iv) high employee turnover, which decreased efficiency. On the revenue side, loan volume grew more slowly than anticipated. IFC often expected a higher number of loans based on the projected level of productivity per loan officer. The gap between projections and reality was particularly strong in Sub-Saharan Africa but also in other regions, where the assumptions of productivity were taken from other greenfield operations (mostly from Latin America and the Caribbean) but such assumptions proved hard to achieve in the local context.

4.48 **In some cases, insufficient assessment of the regulatory difficulties and "red tape" has caused investment to get delayed.** In some cases it took almost two years, with resulting cost overruns. Major delays in approving the operations occurred in the Democratic Republic of the Congo, Ghana, and Liberia. IFC found that "the pre-operational phase took longer and cost more than anticipated. The preoperational phase was a complex undertaking that, among other things, included interacting with regulatory authorities, renovating branches, training staff, preparing policies and procedures, and configuring the information technology platform" (IEG 2015). Delays in regulatory approval were a common issue in half of the cases.

Catering to the Poor

4.49 **The extent to which loans are taken out by the poor can be measured by their average loan size.** Only household income data could establish a precise record of the actual income level of a client base of an MFI. These are typically not available in an efficient manner on a large scale for several thousand MFI clients. The literature as well as practitioners have hence resorted to the average loan size as a proxy for reaching the poor, that is, to assess to what extent a loan portfolio caters to the poor. In order to control for the income level of the country – a $1,000 loan may be small in Turkey but it is large in Bangladesh – the average loan size over gross national income (GNI) per capita is typically taken as an indicator.

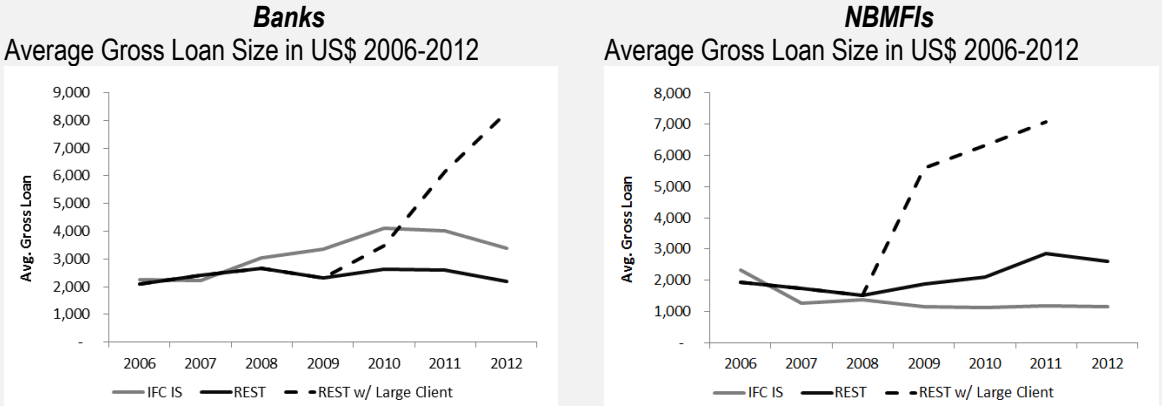
4.50 **Average loan size values can be computed using MIX data.** MIX reports provide detailed information on the financial, operational, and social performance of the microfinance industry (1,650 MFIs), including key data points such as gross loan portfolio, average loan and deposit balances per borrower, yield on gross portfolio, and so forth. For this evaluation, within the [1,650] MFIs reporting to MIX, 103 were identified that received IFC support. These account for 73 percent of IFC clients in the entire evaluation portfolio of 142 IFC-supported MFIs. This total number of 142 has been corrected (the total number of IFC investee companies is higher) as not all IFC investee companies can reasonably be expected to report to MIX. [43, 44]

For IFC-supported MFIs, the derived values were complemented by those computed based on reported loan sizes in IFC's Development Outcome Tracking System.

4.51 **IFC-supported banks[45] issue loans that are, on average, slightly larger than the ones issued by their peer banks; those of NBMFIs tend to be smaller.** Looking at the absolute volume of the loans (in U.S. dollars), IFC-supported banks (that reported these data consistently) issued loans with an average loan volume of $2,000 in 2006, steadily growing to $3,000 in 2012. IFC's loan volumes were initially comparable to other peer banks; but as of 2007 IFC-supported banks increased their loan volumes to $3,000 while their peers remained at about $2,000.

4.52 For NBMFIs the situation is different, inasmuch as IFC-supported NBMFIs issued loans smaller than their peers. Note that the entry of one Chinese Bank and two Chinese NBMFIs into the MIX market leads to a drastic increase in average loan size as of 2010, as their microloans are significantly larger than the MIX markets' average. Hence in below graphs, the MIX market data is presented comprising all contributing MFIs, that is, including these bank (dashed line as of 2009), and excluding them (full line throughout) (Figure 4.11).

Figure 4.11. Absolute Average Loan Size: IFC Supported MFIs versus Market



N (IFC IS) = 45; N (REST)= 141; N (TOTAL) = 196 | N (IFC IS) = 37; N (REST) = 627; N (TOTAL) = 693

Source: MIX.

Note: IS = Investment Services; NBMFI = non-bank micro finance institution; REST = MIX market without IFC-supported MFIs.

4.53 **Considering the GNI per capita in the respective countries, the difference between IFC-supported banks and their peers widens.** Putting the average loan size in relation to the GNI of the respective country allows one to factor in the populations' income level; this yields the "relative average loan size" in terms of U.S. dollars/GNI. According to this measure, banks support through an IFC investment show an about equal relative loan size initially 2006-2007 (2 U.S. dollars/GNI per capita), but increasing to about twice as large a relative loan size (4 U.S. dollars/GNI per capita) during 2009-12. For NBMFIs, the situation is

somewhat different as overall average loan sizes decreased during 2006-12 for both IFC supported NBMFIs and their peers, with IFC-supported NBMFIs issuing loans about 20 percent smaller than their peers (Figure 4.13a). The relative average loan size differs across regions. It is relatively highest in SSA, hovering around 3.5 – 7.0 U.S. dollar / GNI per capita and lowest in SAR with only 0.4–0.5 U.S. dollar / GNI per capita indicating that in the latter region's MFIs are the most successful in reaching the poor.

4.54 **The difference between absolute average loan size and relative loan size can be explained by the differences in geographic focus areas of IFC and the rest of the MIX market.** As seen above, when looking at the relative average loan size in terms of loan size over GNI per capita, the gap between IFC-supported banks and the average loan size of the MIX market widens. Looking closely at where these MFIs are located reveals that IFC tends to support MFIs often located in countries that have lower income levels, that is, those that have a lower GNI value. Of the 21 IFC-supported banks, for example, 7 are in low-income countries while only 5 of the rest of the MIX reporting MFIs are located there; equally 7 IFC-supported banks are in upper-middle income countries and 9 of the MIX MFIs are located in these countries.

4.55 This indicates that IFC tends to operate more in lower income countries and less in high income countries which in turn drives the relatively average loan size (dollar/GNI per capita) up for IFC-supported MFIs. But is also corroborates the conclusion of Chapter 1 that IFC's support is pioneering in as much as it reaches out to those countries that have the lowest financial inclusion rates and low average loan sizes.

4.56 **The analysis of the relative loan size (U.S. dollars/GNI per capita) reveals also that microloans represent about 5-10 percent of the loan portfolios of those banks that IFC supports with investments where microenterprises or poor households are the or one of the declared beneficiaries.** For this assessment, the average relative loan size of the MIX market was computed and found to amount to 1.6 x GNI per capita. Plotting the entire portfolios of the banks that received funding from IFC in the context of its financial inclusion agenda yields Figure 4.12b.

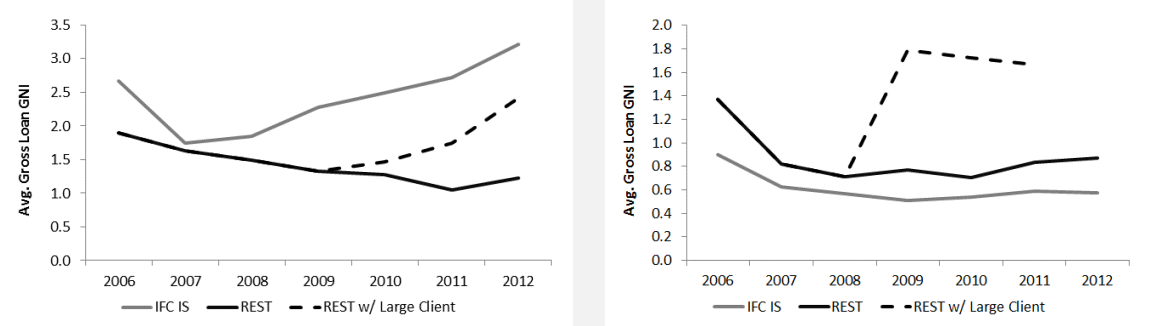
4.57 Most of IFC-supported banks (90 percent) have mixed portfolios, that is, they are not only issuing micro loans (of about 1.6 x GNI per capita), but also SME loans. Hence, although about 5-10 percent of their portfolios are microcredits, the rest of these portfolios are larger (up to 10 times or more). These go to clients taking out significantly larger loans, including SMEs. IFC therefore plays a role in the micro-segment, but only a fraction of its support caters to the small retail segment of microcredits. This is not necessarily a bad thing as, at least, SMEs are likely to benefit from such loans—and eventually microenterprises may benefit from the strengthening and deepening of the smaller end of the commercial finance market. Issuing SME loans is likely also to be more lucrative for MFIs and could hence be seen as supporting

the microcredit business lines. The fact that microloans represent only a fraction of the loan portfolios of supported banks can partly be attributed to the fact that IFC-supported banks found it difficult to branch out and support the rural poor, except for selected cases like in Mexico through its support of Compartamos and Progresemos.

Figure 4.12. Relative Average Loan Size of IFC-Supported MFIs

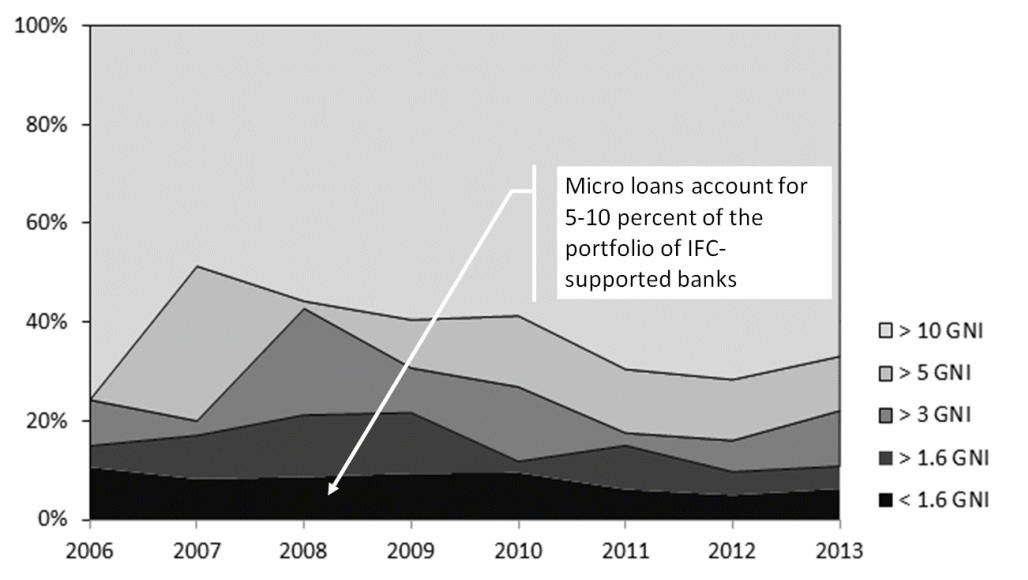
(a) Relative Average Gross Loan Size (US$ over GNI: IFC supported MFIs versus Market

Banks *NBMFIs*



N (IFC IS)=45; N (REST)=141; N (TOTAL)=196 N (IFC IS)=37; N (REST)=627; N (TOTAL)=693

(b) % Volume of IFC Loans at Different GNI per capita Cuts



Sources: MIX and IFC Development Outcome Tracking System.
Note: REST = MIX market without IFC-supported MFIs; MSME = micro, small and medium size enterprises.

4.58 **MFIs often shy away from rural activity, which is unfortunate, as this is where most of the poor live.** To expand into the rural areas, traditional distribution channels based on brick-and-mortar branches would have to be replaced by less costly models, such as correspondent banking or tablet-based agent banking. Many institutions are deterred because

demand is difficult to assess and household incomes are variable as a large share of potential clients rely on weather-dependent agribusiness, as seen in Tanzania and Latin America and the Caribbean. This requires, among other things, innovative product design, such as loans with flexible payback profiles, ideally modeled after the income situation of the client household, as pioneered in Tanzania by the IFC-supported Access Bank, or mobile banking, which several IFC client MFIs have ventured into. At times, the payback-culture of the rural poor has been affected by debt forgiveness programs or promises, as in the case of India. These findings are corroborated by IFC's own observations, as in its recent Smart Lessons "Small Beginnings from Great Opportunities" (IFC 2015).

4.59 **The focus on an urban clientele was found to be particularly true for greenfield operations,** as confirmed by the recent IEG cluster evaluation of IFC's Microfinance Program in Africa (AMP), which concluded that "[t]he main beneficiaries of the program are middle-income individuals (mostly women) in cities. The program is progressively expanding in selected countries its reach to lower income individuals and rural areas but it is taking longer than initially expected" (IEG 2015). Further findings of IEG's AMP evaluation are summarized in Box 4.5.

Box 4.5. IFC Africa Micro Finance Program – Creating Greenfield MFIs

The Africa Microfinance Program (AMP) started in April 2007 with a programmatic approach of six microfinance transactions in five countries in Sub-Saharan Africa which grew to 20 operations as of 2013. It was designed to expand access to finance services for poor populations and low income microentrepreneurs and to establish commercially viable microfinance entities to provide access to credit and financial services for previously excluded populations. IFC was a major contributor to these commercially oriented microfinance institutions. Overall, the AMP generated positively to market development but it required more time and resources than expected.

Overall, the program had mixed results. Some leaders emerged from the program that exhibited balanced growth between loans and deposits and demonstrated an ability to gain profitability and market share. Less successful operations, however, are still struggling to grow. On the positive side none of the projects are currently in special operations, have defaulted or had their debt rescheduled. Despite the positive private sector development impact, none of the supported operations reached the profitability expected by IFC. Impact has been of relatively small scale and the main challenge for IFC and the program remains to scale up existing operations. The recently concluded IEG review of the AMP concluded:

- Greenfields can be a powerful tool in countries where the International Finance Corporation (IFC) has first mover advantage.
- IFC was a major contributor in pursuing commercially oriented microfinance on Africa's map and establishing Microfinance Infrastructure in several countries.
- AMP generated positive market developments but required more time and resources than expected. None of the projects achieved the profitability expected in the Board Report.
- The main beneficiaries of the program are middle-income individuals (mostly women) in cities. The program is progressively expanding in selected countries its reach to lower income individuals and rural areas but it is taking longer than initially expected.
- New greenfielding in Africa stopped in 2012 and since then IFC has been focusing more on expansions, transformations and digital finance.

The main challenge for the AMP is to take stock of what has been achieved and possibly scale up existing operations.

Source: IEG 2015.

4.60 **Monitoring and transparently reporting to what extent IFC's loans reach the poor and microenterprises is important going forward.** Currently, IFC uses proxies to define microenterprises; accordingly, microenterprise have less than $100,000 in assets and annual sales and a micro loan has a volume of less than $10,000. This may be adequate for Turkey, but is much too high a threshold for "micro" in, for example, Tanzania. The MIX market can serve as an indicator for what is an adequate volume of a micro loan: MIX reporting MFIs typically issue microloans of about 1.6 times the GNI per capita in a respective country. This appears a reasonable proxy for a relative loan size and would translate into microloans averaging $10,970 in Turkey, but averaging about $860 in Tanzania.

4.61 IEG's own analysis shows that about 60-70 percent of the microloans of an IFC-supported bank would be considered "micro" using such a definition. Going forward, IFC may want to consider first defining what constitutes a microenterprise in the various economies in which IFC operates. Based on such a definition, IFC could then set thresholds for loan sizes to be considered "micro." This would allow IFC to report on the share of the microloans reaching the poor using loan sizes, cognizant of the country specific income situations and granularity of the economies. The current practice of labelling investment as "in support of microenterprises" could cause confusion and may raise undue expectations about the IFC's reach and the number of microenterprises it is helping.

4.62 **Currently, there is no comprehensive data available on the types of companies that take out such "micro loans",** with the exception of one IFC study. This study focused on a sample of 34 banks, covering about 2,000 enterprises from 34 IFC client financial institutions in 25 countries in six regions. The study was, *inter alia*, used to verify the accuracy of IFC's micro-, small-, and medium-size enterprise (MSME) loan size proxies, which are currently being used as the official IFC MSME definition for financial markets' clients. Even though these data are not representative for IFC's entire portfolio of investee MFIs, they are the only one available. Accordingly, the median and average annual sales of these IFC-supported microenterprises amounts to $152,000 and $530,000 – both considerably above the set threshold for microenterprise loans of up to $100,000. Similarly, the median and average total assets amount to $131,000 and $ 352,000, respectively, compared to a cut-off point of $100,000. The IFC supported microenterprises contained in this sample appear to meet the criteria only with regard to the number of employees (IFC 2013). Current efforts are under way at IFC to better understand its MFI clientele, including through the "extended appraisal" process".

4.63 **Many of IFC-supported MFIs are located in low-income countries, most of which have high exclusion rates.** This indicates that IFC operates at the frontier. Data show, however, that within these markets, IFC's support does not necessarily reach the poorest of the poor. The mixed portfolios of IFC-supported banks typically have a share of 5-10 percent of microloans; within the microloan segment, average loan sizes are slightly higher than the ones of peer banks, but smaller than those of peer NBMFIs. IFC-supported MFIs are found

hesitant to enter the rural space for a range of issues. Going forward, IFC would have to find innovative business models, products and technologies that would enable reaching the poor, including through innovations that would allow lowering transaction costs. This is likely only possible through trial and error or through a research agenda that pilots such innovative business models as IFC tries to scale up its MFI business.

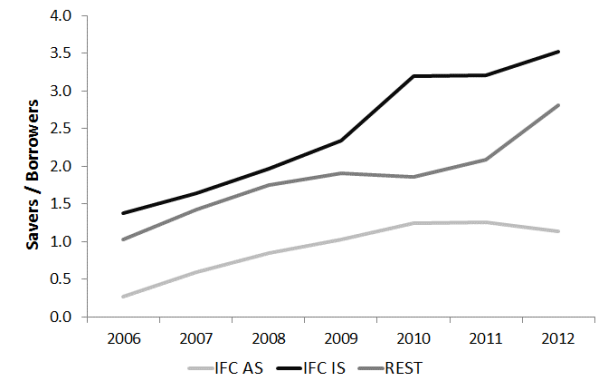
4.64 **Equally important for the poor is the extent to which IFC-supported MFIs were able to promote saving.** Savings are financial services that seem to be potentially more beneficial for the poor than credit. As seen in Chapter 1, studies assessing the impact of providing access to savings products are, on average, more positive compared to the impact studies on microcredit. Studies pointed at higher investment rates, and at their power to mitigate risk. Yet, the focus of the Bank Group's inclusive finance support has been on credit and only gradually embraced other services, despite their usefulness for the poor. The historic focus on credit has simple reasons: (i) the ease of regulating credit, (ii) its built-in commitment mechanisms, and (iii) the lower cost of providing credit relative to local resource mobilization. However, increased savings would not only offer a value proposition for the poor, increased mobilization of savings in the local currency would also make MFIs more impervious to foreign exchange fluctuations, reduce their need for hedging, or reduce the foreign exchange risk passed on to customers. And finally, it may also make financial markets less vulnerable, as international funders tend to withdraw funding to frontier markets during crises. Hence, it is important to understand to what extent MFIs engage in deposit taking.

4.65 **It is IFC's strategy to increase savings, even though at present, IFC's portfolio is heavy on credit.** Most investments support the provision of credit (87 percent of IFC investments) as this is what consumes funding; savings would not. However, it is IFC's strategic intention to increase savings mobilization as "a key to sustainability [of the MFIs market] and poverty alleviation." It aims to do so by increasing back-office capacity in the MFIs it finances, by setting in place adequate incentive structures, by exercising its influence at the Board, or by assisting in innovative product design and/or developing market and strategy studies. At the upstream level, IFC Advisory Services works on regulatory improvements that enable deposit taking (see Chapter 3).

4.66 **Looking at the few MFIs that systematically report savers and borrowers, those MFIs that were supported by an IFC investment tend to have higher number of savers than their peers.** During 2006-12, IFC-supported banks managed to increase local resources mobilization continuously, even more so than their peer banks. (Figure 4.13) This findings is, however, to be regarded an indicative value only as only small portion of MFIs report data on savers and borrowers. Encouraging deposit taking with its investee MFIs was more difficult in some regions than in others, as found by IEG's evaluation of IFC's Africa Microfinance Program (IEG 2015). With the exception of Procredit DRC, for most MFIs of the Africa Microfinance Program the ramping up of customer deposits has been slower than

expected and has resulted in a dependence on donor funding to finance loan growth. In 6 of 10 evaluated MFIs, the institutions focused on growing the loan portfolio first and then on gathering deposits. Although the projects were able to reach more than 100,000 clients on average, the level of deposits per account was low ($312 per account, which is similar to $258 in the rest of Africa but significantly lower than $1,500 in Latin America and the Caribbean) and resulted in high loan to deposit ratio. When supporting operations, IFC may wish to require sponsors to give similar importance to deposits as to loans to experience a more balanced growth.

Figure 4.13. Promoting Savings: IFC-Supported MFIs versus MIX Market



N (IFC IS) = 12; N (IFC AS) = 2; N (REST) = 8; N (TOTAL) = 22

Source: MIX.
Note: AS = Advisory Services; IS = Investment Services; REST = MIX market without IFC-supported MFIs.

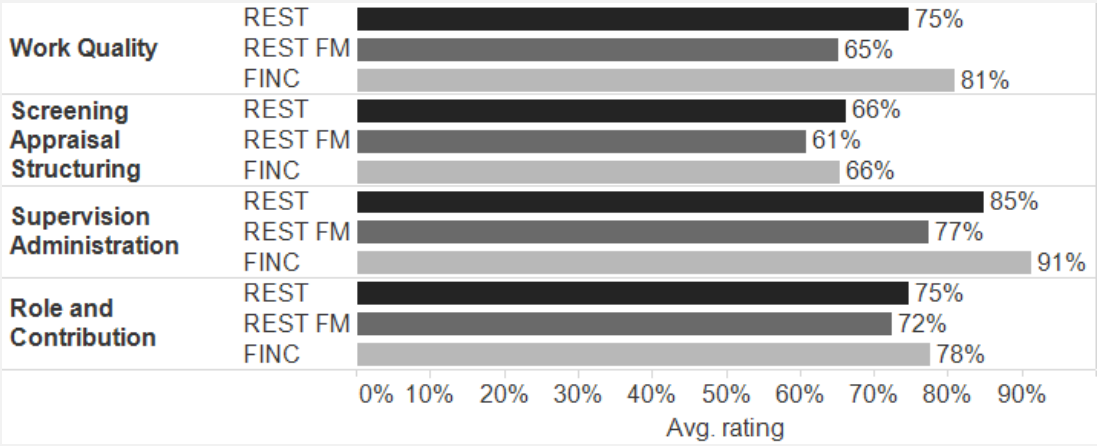
Drivers of Success and Failure, Work Quality, and Sustainability

4.67 **Generally, when looking at the country-level engagement pattern of IFC investment, IFC's approach appears opportunistic rather than part of a broader strategy, and sometimes it seems to come late.** This trend emerged from most country cases reviewed. For example, in Indonesia, although IFC has several successful investments in MFIs that provide microfinance, it lacked an overall engagement plan. Or in Tanzania, it intended to be involved in early bank privatization efforts, but eventually opted not to; several years later, it came back to invest in the two established microfinance providers after they had received assistance from the World Bank and were invested in by another strategic partners from the private sector and DANIDA, respectively. Also in Azerbaijan, IFC loans for MFIs came later – typically after other international financial institutions and impact funds. For example, one of its investments in a leading MFIs came 13 years after it was established with USAID support and well after other IFIs invested, instead of assisting it to take of initially.

4.68 **The fact that IFC tends to invest rather late may lead to missed opportunities, as in greenfield operations; IFC did benefit from a first mover advantage.** In countries where IFC

had first mover advantage with greenfield operations (the Democratic Republic of the Congo, Liberia, Madagascar, Nigeria, and Senegal), its investees were able to achieve higher market share than those where IFC was a late comer (Cameroon and Ghana). In the first set of countries, AMP projects became market leaders. In more mature markets some were able to enter as niche players, contain costs, and obtain early profitability. Three examples of this approach were Access Nigeria, Accion Nigeria and EB, Accion Ghana.

Figure 4.14. High Work Quality of IFC Investments in MFIs



Sources: IEG-validated PSRs, IEG portfolio analysis.

4.69 **A closer look at IFC's management of its investments in support of financial inclusion reveals high work quality.** Eighty-two percent of evaluation downstream projects were rated satisfactory or better on work quality. While screening, appraisal and structuring was carried out at comparable quality standards as IFC's portfolio as a whole (67 percent rated satisfactory), IFC excelled with regard to supervision and administration. Full 91 percent of microfinance investments were rated satisfactory of higher. Also IFC's role and contribution was rated as satisfactory or higher for 79 percent of projects (Figure 4.14).

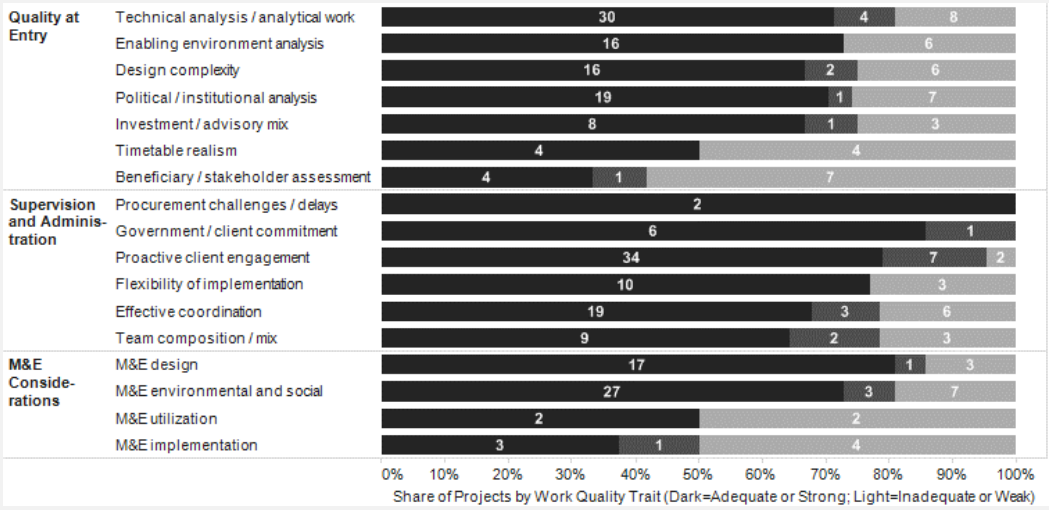
4.70 **Work quality is important, as IFC has substantial control over development outcomes in diverse country conditions through it.** Controlling for relevant country characteristics such as per capita GDP, depth of credit information and credit, and base level of inclusion, for IFC projects (investment and advisory), significant predictors of outcome include design and complexity; prior analysis; and M&E. These factors under IFC control are significant predictors of outcome, while country characteristics are not. This indicates that IFC has substantial control over outcomes in diverse country conditions through its work quality.

4.71 **An analysis of the drivers of success and failure reveals a set of recurring opportunities and issues.** Again, lack of realism with regard to timing of an IFC investment, inadequate analysis of the political and institutional context and of beneficiaries /

stakeholders and flaws in technical analysis were identified as weaknesses (Figure 4.15). However, these shortcoming mainly apply to projects in SSA, IFC had overoptimistic projections in terms of number of loans, average balance per loan, and mix of loans between microloans and SME loans. As with all IFC investment, breakeven was expected to occur within 18-36 months of launch. Although some operations attained breakeven within two to three years, profitability was affected significantly. Break even for most operations was achieved between years 4 and 5, and recovery of earlier losses only occurred after that period. Thus, for most greenfield operations, projecting breakeven results after two to three years proved to be optimistic.

4.72 **Relevant sponsor experience was key.** Sponsor quality was one of the key factors of success across projects. In Pakistan the committed and strong strategic sponsor (Telenor) was one of the key drivers for a successful investment in Tameer Bank, assisted through a well-timed technical assistance delivered by a parallel IFC advisory project. Management was able to quickly deal with the deteriorating asset quality and revision needed to the business model. Similar in Mexico where sponsor quality, experience and commitment were drivers of success for IFC's investment in Progresemos, for example.

Figure 4.15. Work Quality of IFC Investments



Sources: IEG-validated PSRs; IEG portfolio analysis.

4.73 **Starting a new MFI is not the same as supporting an existing, functioning one—pointing at specific requirements for sponsor quality in the case of greenfields.** Many firms and organizations have experience in providing specific consultancy services to MFIs, but few have the necessary expertise and capacity to create, manage and build them. The case study on Ghana thus concludes that the selection of sponsor with appropriate experience is hence essential, particular in greenfield operations and in challenging environments that IFC often operates in.

4.74 The recent IEG evaluation of IFC's AMP concluded equally that "very few of the IFC's sponsors had relevant greenfield experience in Africa at the time of the program set up. Most sponsors were consulting firms specialized in acquisitions, or transformations but had no relevant experience in starting greenfields or managing day-to-day operations, especially in Africa." Access Holdings had some experience with start-up and managing operations in Access Bank Azerbaijan (in 2002) with the support of IFC, the European Bank for Reconstruction and Development, and KfW, and has grown significantly. Two of the three AMP operations with Access Holdings were evaluated as "high" performers. In the case of Advans Holding, it had consulting experience and acquisitions experience, particularly in Amret in Cambodia, but it did not have previous greenfield experience or managing operations in Africa, which was one of its main weaknesses. All three evaluated projects of Advans Holdings were rated as "low" performers (IEG 2015, page 20). IFC may draw on this experience in selecting its partners for future projects.

4.75 **IFC-supported projects encountered greater difficulty in attracting and retaining qualified personnel.** This is valid across most regions. Both operations in Mexico, Progresemos and Compartamos, suffered from difficulties attracting and then retaining high-caliber staff. Identifying appropriate loan officers posed a challenge in Peru, where candidates with roots in the local areas proved often to perform best. Understanding the business of MFI clients turned out to be important and in the case of a rural expansion would require knowledge of the agricultural sector, as in Tanzania.

4.76 **In Africa, the issue of staffing is even more pronounced than in other regions** because of educational constraints, higher employee turnover, hard living conditions, and poaching of trained personnel. There were a number of IFC-supported projects where staff joined to receive good banking training and after some time went to other institutions as experienced middle managers. This is a positive spillover for the local markets; however, for the investee entities it increased operating costs and reduced staff productivity. In these projects the frequent changes of personnel have not been confined to second-level employees but have also happened with top-tier employees. Some operations have had more than four CEOs in five years. These changes affected the performance of the institution as the new employees and managers had to learn the specificities of the market.

4.77 **IFC's efforts to establish MFIs in pioneering environments suggests that the institution is working at the limits of what is feasible with the business model of self-sustaining, commercially oriented MFIs.** IFC works in countries with the lowest inclusion rates and its volume of loans issued in these countries corresponds roughly to the share of the entire MIX market. As the MIX market data contains about 30 percent of NGO-type of MFIs, IFC's presence in these low inclusion countries is remarkable – potentially suggesting it is at the boundary of what is feasible, at least given IFC's investment horizon and associated expectation when investment should turn profitable.

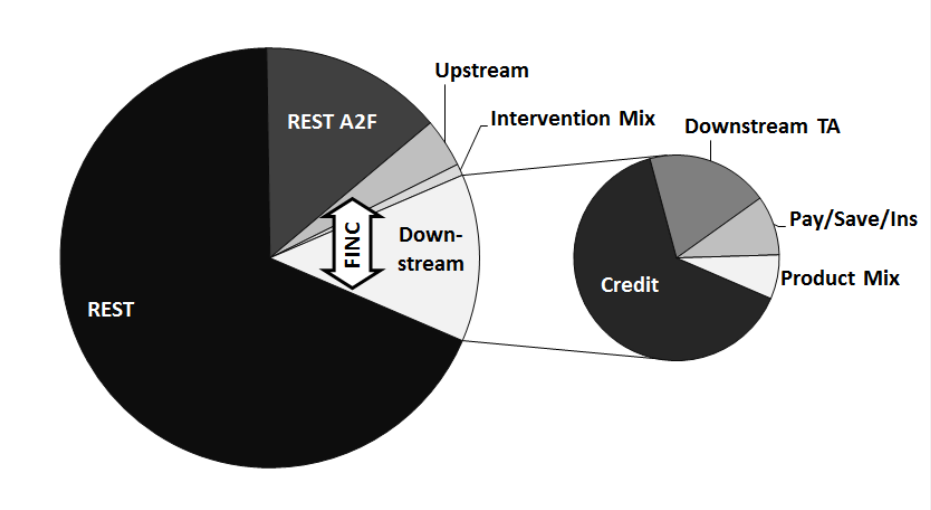
4.78 These MFIs issue loans that are larger than the ones of their peers which in general should allow them to produce sufficient yields. But in reality, loan volumes increase too slowly and resource mobilization is too costly so that many of these MFIs take longer to become profitable, often four or even five years for greenfield operations. This poses challenges for IFC scheduled exit, as these get delayed as well. IFC work quality was found high – and is hence not a factor for the low business success. This raises the question of whether IFC's approach of relying on self-sustaining MFIs as their main business model has found it limits – beyond which catering to the very low retail end of the market would only be feasible with subsidies.

IFC ADVISORY SERVICES IN SUPPORT OF MFIS

4.79 **Fifteen percent of IFC advisory work supports financial inclusion through downstream related advisory projects.** Of a total of 1,612 advisory mandates that IFC implemented during the evaluation period FY07-13, 322 projects (20 percent) focused on supporting financial inclusion. Financial inclusion projects fall typically within the access to finance business line which together with all other access to finance projects implemented 513 projects. This business line is the second most important business line of IFC advisory, only surpassed by sustainable business advisory, with 555 projects.

4.80 M**ost IFC advisory projects are in support of MFIs; that is, they are downstream advisory.** Of these 322 financial inclusion advisory projects, only some 60 address issues related to the policy and regulatory environment, hence are upstream projects; most advisory projects (262) are genuine downstream projects or 15 percent of all advisory projects (Fig 4.16).

Figure 4.16. IFC Advisory in Financial Inclusion

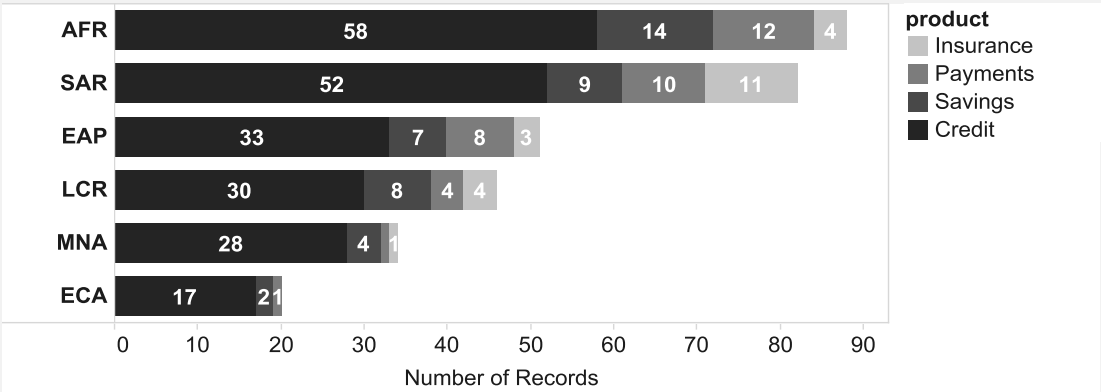


Sources: Business Warehouse, IEG portfolio analysis.
Note: FINC = Financial inclusion portfolio, A2F = Access to Finance business line, TA = Technical assistance.

4.81 **The majority of these IFC advisory projects addressed credit-related financial inclusion issues** with a varying share of projects related to payment systems, savings and insurance. Fully 128 projects (63 percent) of IFC advisory projects address credit issues and only about 10 percent payment, savings, or insurance related issues. Looking at the portfolio over time, every year about 60-80 percent of all financial inclusion advisory work deals with projects involved in the provision of credit; between 5-20 percent are devoted to payments and 7-27 percent to savings; insurance is addressed the least with about 2-8 percent of projects, depending on the year. Figure 4.16 shows these proportions. Over the time period FY07-13 the share of non-credit related projects varied, but did not show an increasing trend.

4.82 **Africa and South Asia were the regional focus of IFC's advisory work.** About 88 (27 percent) projects took place in Africa, followed by the South Asia Region with 82 projects (26 percent). Sixteen percent and 14 percent took place in East Asia and Pacific and Latin America and the Caribbean, respectively; and Europe and Central Asia attracted the fewest projects, with only 6 percent. This regional pattern aligns well with the finding of Chapter 2 that indicted that IFC advisory (together with World Bank lending) strongly focuses on countries with lowest financial inclusion rates. In fact, IFC advisory over-emphasis these low inclusion countries even – underscoring their strategic relevance. Across most regions the share of credit-related projects hovers around 65 percent, with the exception of the Middle East and North Africa and Europe and Central Asia Regions, where they account for 80-85 percent (Figure 4.17).

Figure 4.17. IFC Advisory across Regions

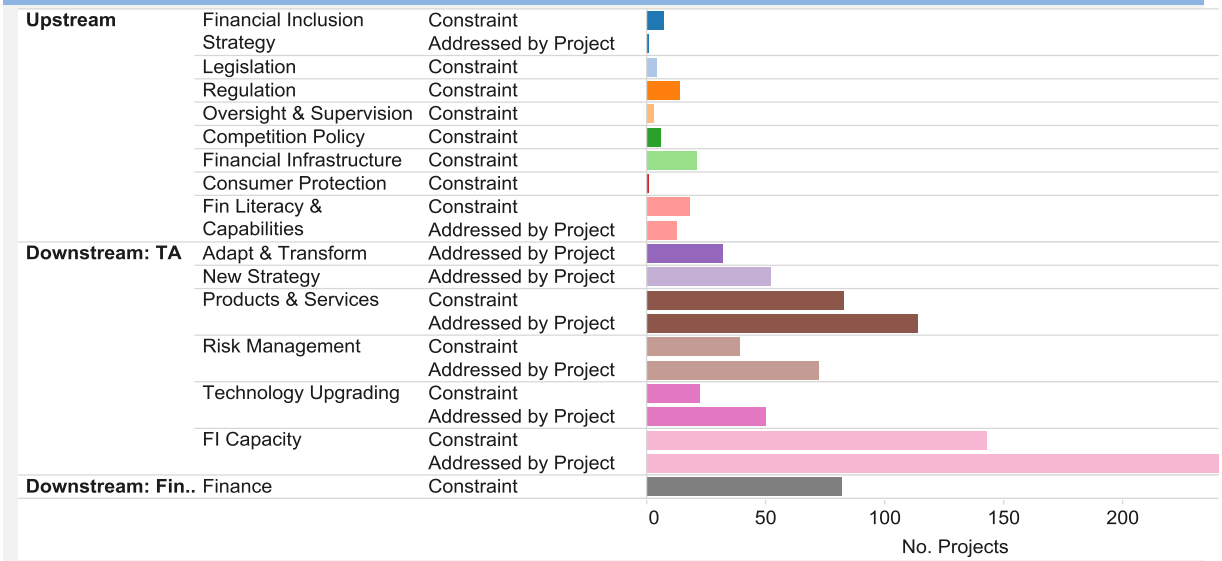


Sources: Business Warehouse, IEG portfolio analysis.

4.83 **IFC advisory projects build capacity with local MFIs, help client MFIs develop products and services, and improve risk management processes.** Looking at the constraints that IFC advisory mandates address (Figure 4.18) reveals that they mainly aim at building capacity with MFIs; that is, they train MFI staff in managing their institutions and associated processes. With about 150 projects, this is the single most important focus area. Developing

product and services for MFIs is the second most important area they focus on, followed by improving risk management, strategy development, technology upgrading, and adaptation and transformation, that is, assisting non-deposit taking MFIs "graduating" into deposit-taking institutions.

Figure 4.18. IFC Advisory in Financial Inclusion



Sources: World Bank database; IEG portfolio analysis.

RESULTS AND FACTORS OF SUCCESS AND FAILURE

Development outcome ratings

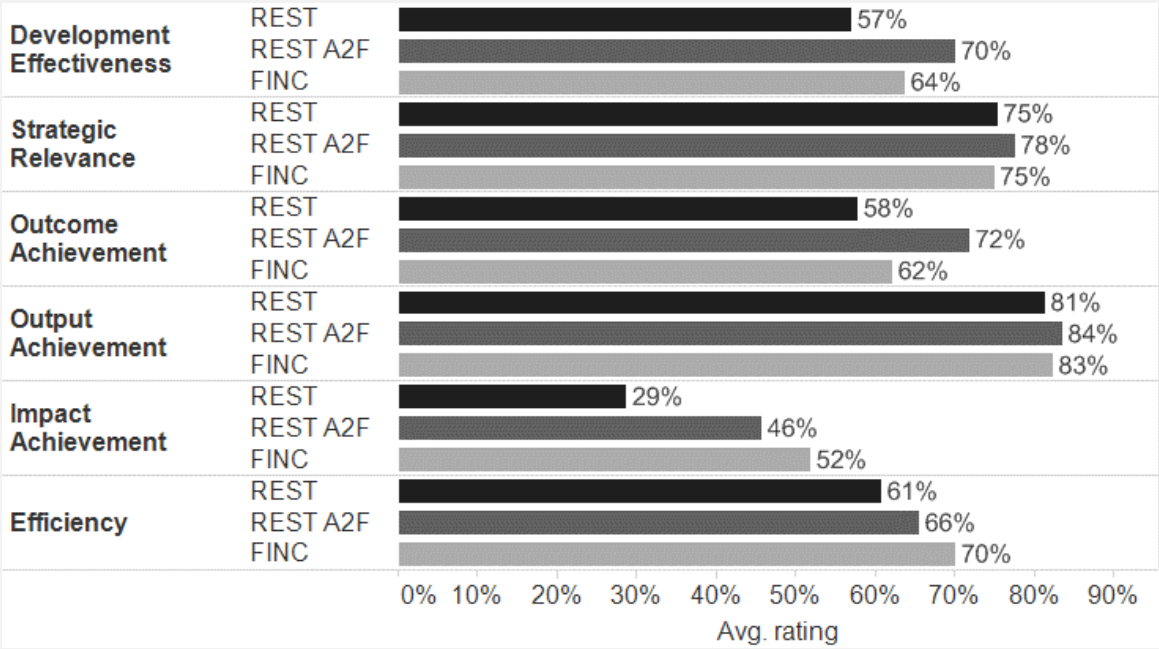
4.84 **Measured by their development outcome rating, about two-thirds (64 percent) of IFC downstream advisory services are rated satisfactory or better—that is, are successful.** This success rate corresponds roughly to the remaining access to financial advisory portfolio, where 70 percent are rated successful, but above the success rate of the portfolio as a whole, of which 57 percent are rated successful.

4.85 **Looking at the components that jointly make up the development outcome rating,** IFC advisory projects rate high on output achievement (83 percent rated successful) and on strategic relevance (75 percent rated successful). Performance drops when it comes to outcomes achievement, where only 62 percent of projects are successful, 10 percent lower than the average access to finance advisory service.

4.86 **IFC advisory projects stand out for their high impact achievement – at least in relative terms – and for their high level of efficiency, compared to other advisory services.** Overall, 52 percent of projects achieve their impact, below the 62 percent of projects that still achieved their (more immediate) outcomes. In relation to other IFC advisory projects, 52 percent is a

relatively high success rate. About 46 percent of the remaining access to finance projects achieve their impacts – and only 29 percent of the advisory portfolio as whole (Figure 4.19).

Figure 4.19. IFC Advisory in Financial Inclusion



Source: World Bank database, IEG portfolio analysis.

Drivers of Success and Failure by Engagement Type

4.87 **IFC advisory projects pursue a range of objectives**, including capacity building, product development, and risk management advice. None of these engagements is the same; each is driven by different contexts, client interaction patterns, and level of technical depth. A disaggregated analysis is hence likely to generate more useful lessons to be learned. To this purpose, the below paragraphs summarize drivers of success and failure for the major three type of engagement of IFC advisory: building capacity (which is often used to pursue transformations of non-deposit taking MFIs into banks), product development, and risk management (Figure 4.20).

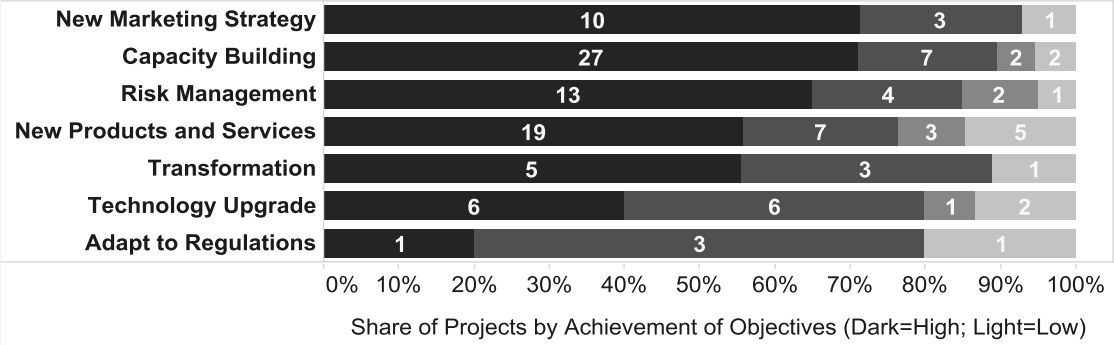
4.88 **Most IFC advisory projects include activities that aim to improve the institutional capacity** of MFIs and financial intermediaries. As one of the most utilized methods for improving institutional capacity, staff training activities achieved their results in approximately two-thirds of evaluated IFC Advisory projects.

4.89 Factors that facilitated the success of such capacity building activities include client commitment, relevance and tailoring of training activities, choice of project partner (training facilitator), and appropriate target setting. In Pakistan, for example, the selection of a high-

quality project partner helped with the successful delivery of a training program that focused on improving staff capacity to operate and better understand the newly installed management information system.

4.90 These same factors were also observed in projects that failed to deliver their intended benefits, though in these instances they had a negative effect on performance. Weak client commitment and client reluctance to pay for in-kind contribution of staff time and facilities needed to complete trainings were factors that negatively affected performance. IFC's technical assistance grant to Progresemos in Mexico faltered, as it left the selection of the facilitator to the client who then partnered with a provider that advised on lending techniques that were not suitable for the local context.

Figure 4.20. Achievement of Objectives in IFC Advisory Downstream Projects



Source: IEG portfolio analysis.

4.91 **Capacity building and staff training activities enable the successful delivery of other related activities in the IFC advisory portfolio.** Having strong institutional capacity and well-trained staff is an enabler of the successful delivery of other project activities; in fact, capacity building and training activities are often inter-linked with the delivery of other services. For example, in the above-mentioned case in Pakistan, training on the use of new information systems in Pakistan helped the institution ensure the successful adoption of this new technology infrastructure. The project tailored its consultant services and placed in-house team for twelve months which allowed for fast resolution of information technology issues; evaluation documents referred to this as best practice. Other key areas of IFC advisory support include risk management, new product and service development and adoption, and transformation support.

4.92 **Importantly, IFC advisory projects supported transformation of microfinance institutions and NGOs into regulated microfinance banks**. Ten percent of the evaluated IFC advisory portfolio (n = 90) had transformation activities embedded in project design. Supporting transformation projects often included feasibility studies, pre-incorporation costs, risk-management improvements, information technology upgrading, as well as other

capacity building and training activities. In the Pakistan example, IFC advisory supported the institution with a feasibility study, an independent audit of the portfolio and licensing costs, and information technology system support. The transformation was successful and IFC made an equity investment in the new bank.

4.93 **Transformation from an NGO to a microfinance bank was achieved in just over half of the relevant project portfolio; however, most projects faced internal and external factors that delayed results.** Although Kyrgyz Republic's Bai-Tushum was able to transform into a deposit-taking institution, at first, it was not able to increase deposits, preventing the institution from transforming "in practical terms" – the institution received its company license in 2009 and deposit license in 2011. A mix of internal, external, and project-specific factors was responsible for this delay, according to evaluation documents: optimistic time frame under the project design and low absorptive capacity of the Bank and rigidities related to the regulators' approval process for the bank licensing application. As of June 30, 2014, Bai-Tushum had provided loans to over 45,182 customers, an increase of 45.5 percent over the same indicator in June 30, 2013. Bai-Tushum expanded business considerably upmarket and increased the average loan size to $2,200 (IFC 2014).

4.94 Similarly, in Colombia's WWB Popayan, a non-supervised NGO aiming to transform into a bank, the company delayed transformation and deposit taking as the institution's management was conservative and did not want to request a banking license until the institution was completely prepared to operate as a regulated entity. This conservative approach was in response to experiences of other local microfinance institutions that had requested banking licenses before being prepared to operate as a bank.

4.95 **IFC advisory projects helped MFIs and financial intermediaries develop new products and services.** Those supported by IFC advisory vary significantly depending on the type of institution being served and needs of the client and market: from rather targeted and tailored designs, to the use of technology and data-driven decision making, to cases where product design is aligned with corporate or parent company processes and specifications. The successful development and roll-out of new products and services is closely related with staff skills and training, appropriate tools and systems, and client and manager buy-in.

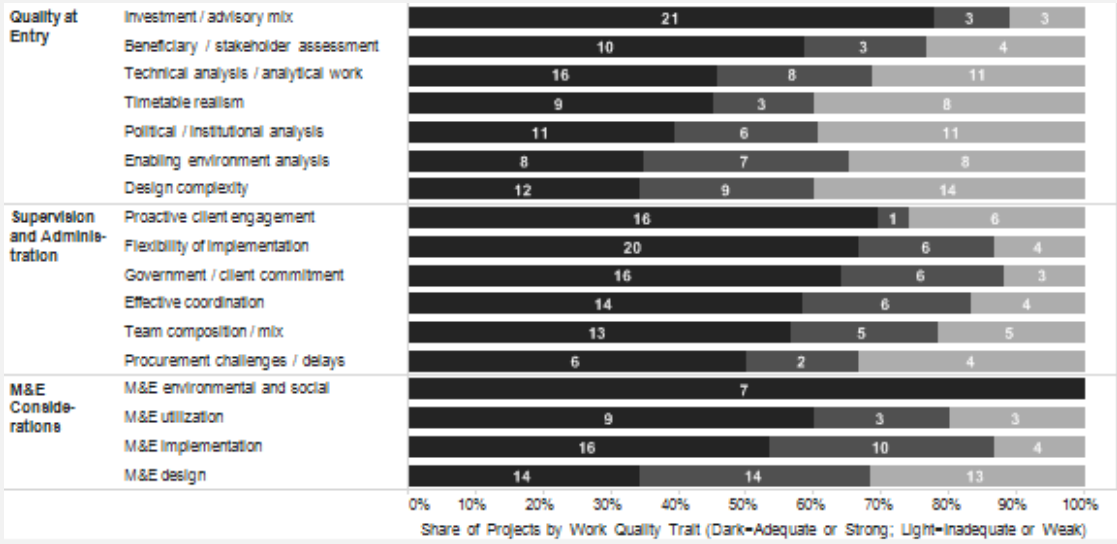
4.96 **In Pakistan, IFC advisory was successful in helping the Tameer Bank introduce mobile banking in non-rural areas** given the results of a feasibility study that identified over-expansion into rural areas as a potentially "huge burden on the Bank's internal resources and capacity." On the other hand, two projects under the African Micro, Small and Medium Size Enterprise (AMSME) program were not able to launch as many new products as planned given the parent company's policy that all products be tested and developed in Kenya before they can be customized and rolled out at the subsidiary level (see Tanzania DTB and Burundi DTB).

Work Quality Driver at Various Stages of the Project Cycle

4.97 **Across all IFC downstream advisory projects certain work quality drivers emerge.** Figure 4.21 illustrates the drivers of success and failure across all IFC advisory projects along the entire project cycle, from quality at entry, supervision and administration to M&E. Starting with what drove quality at entry, more than half of the projects evaluation reports referred to the right mix of investment and advisory services. In Tanzania, for example, the Gender Entrepreneurial Management Project with Exim Bank attributed the program's success to its combined Investment/Advisory approach and its close working relationship with the Financial Markets team stating "without the one team approach [the team] would not have been able to design and get the program off the ground," adequate beneficiary and stakeholder assessment.

4.98 **IFC's advisory and investment mix and successful coordination with the World Bank had overall very positive results.** The main conclusion that can be drawn from World Bank Group coordination across units is that this interaction was key to success of the financial inclusion agenda across the objectives. In the case of Pakistan and specifically IFC interventions, success seems to be rooted in joint investment and advisory interventions. This is particularly true in the case of the three phased interventions for Tameer Bank, for which timeliness and appropriateness of the joint interventions were the main drivers of success. Another example of successful IFC advisory/investment coordination is the support for Bai Tushum bank in the Kyrgyz Republic. The second most prominent driver of success at the quality at entry stage was beneficiary and stakeholder analysis, successfully done in 58 percent of projects (Figure 4.21).

Figure 4.21. Work Quality Drivers in IFC Downstream Projects



Source: IEG portfolio analysis.

4.99 **The single most important factor that resulted in failure at the stage of quality at entry was design complexity.** This was seen as a challenge in almost two thirds of IFC downstream advisory projects (Figure 4.20). In India, for example, a recent project completion report suggests allowing time and resources to structure complex advisory projects that have several components and different several performance indicators and conditions on disbursement.

4.100 **Looking next at supervision and administration, proactive client engagement was referred to most often as a success driver.** In Mexico's Compartamos, for example, the commitment of the sponsor was key to the success. Conversely, project delays were the most frequently identified deficiency, due to a range of issues including turn over in IFC project team leadership such as in HF Cajas Mexico projects, funding constraints on the client side in the transformation projects of Bai Tushum, and external factors such as regulatory requirements seen in a range of greenfield operations in Africa.

4.101 **Last, with regard to project M&E, failures to establish a clear baseline, indicators, and targets made measurement and attribution of project results difficult in two-thirds of evaluated IFC advisory projects.** Furthermore, failure to identify and track the right set of indicators can prevent projects from identifying issues early on. In Tanzania, lack of indicators on staff productivity meant that IFC was unaware of the bank's staff turnover problems until the end of the project. The type and quality of indicators identified is also relevant and can be a challenge to proper measurement and attribution as shown in the case of the Burkina Faso and Malawi AMSME projects. In Burkina Faso, no targets were set for the project's non-performing loan (NPL) indicators, whereas in Malawi, the project completion report (PCR) was difficult to validate as it contained unclear attribution claims and different versions of expected targets.

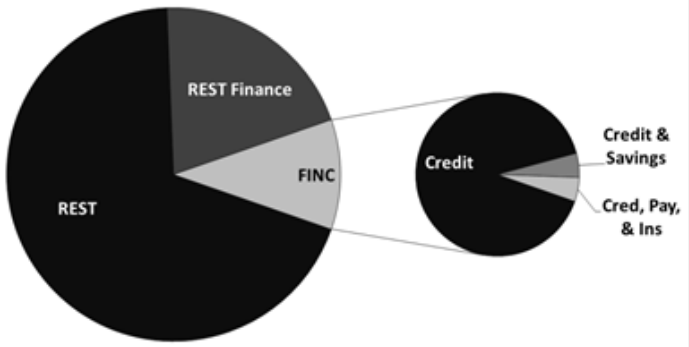
MIGA's Support to MFIs

4.102 **Eleven percent of MIGA's portfolio supports financial inclusion through political risk insurance (PRI) guarantees**. Of the total 197 guarantees implemented by MIGA between FY07 and FY13, 25 have components that support financial inclusion in client countries (Figure 4.22). MIGA's financial inclusion support accounted also for 4 percent of its total gross exposure during this time period. Financial inclusion projects lie exclusively in the financial sector; though they account for 30 percent of projects, financial inclusion projects represent only 10 percent of volume in this sector.

4.103 On average, financial inclusion projects are smaller than the rest of the financial sector portfolio with projects averaging $25 million compared to just over $100 million for other financial sector projects. All of MIGA's guarantees are in support of financing MFIs, that is, they are "downstream" support. None of the MIGA guarantee projects has thus far been

evaluated, making an assessment of the effectiveness of MIGA's support difficult. The following section hence focus on providing an overview of MIGA's activity level in the financial inclusion space.

Figure 4.22. MIGA Guarantees in Financial Inclusion as a Share of Its Total Portfolio



Source: IEG portfolio analysis.

4.104 **Through its guarantees, MIGA has supported financial sector development in client countries by working with microfinance institutions and financial intermediaries.** MIGA's support to microfinance institutions includes guarantees through its Small Investment Program that will support the creation and subsequent expansion of GeoCapital Microfinance LLC, a fast-growing microfinance institution in Georgia. It also supported the creation of a licensed commercial bank, BRAC Afghanistan Bank, where BRAC NGO is the bank's sponsor and Afghanistan's primary microfinance provider. In Pakistan, MIGA supported the coverage of an equity investment in KashfFoundatin, a local NGO established to reduce poverty and empower women through the provision of microfinance services. Kashf Microfinance Bank was created to focus on lending and taking deposits from micro-entrepreneurs and small businesses in Pakistan. MIGA provided three contracts of guarantee; the project was led by the IFC which provided an integrated investment and advisory services package to the project enterprise. MIGA's guarantee with Erste, a Serbian bank, aimed to supported productive businesses through the extension of affordable credit.

4.105 **Prominent in the financial inclusion portfolio is MIGA's master contract issued with ProCredit Holding.** Headquartered in Germany, ProCredit Holding is the parent company of 21 banks (ProCredit Group) and provides finance to some 750,000 very small, small, and medium-size enterprises across the world. The guarantee issued by MIGA aimed to relieve ProCredit Holding from German capital adequacy ratio requirements, thereby freeing funds to be injected in its subsidiary banks, allowing these banks to increase its lending activities. (note: Although ProCredit subprojects were covered under two master contracts (each with a unique project identification), these subprojects were recorded as a single project for each host

country. In cases where the host country had more than one guarantee, the collection of guarantees for that host country counted as one project (Georgia, Serbia, Ukraine)).

4.106 **MIGA's financial inclusion support was heavily focused on delivering credit-related services to the poor.** Nineteen of the 21 projects focused exclusively on credit while two projects provided a mix of credit and other services. Looking at the portfolio over time, most of MIGA's activity is concentrated in the latter half of the evaluated period. This concentration is due to a group of MIGA guarantees issued under a master contract with ProCredit Holding. Sixteen of the 25 financial inclusion projects belong to these two master contracts.

4.107 **Because so much of MIGA's portfolio is dominated by an intervention with a single institution, MIGA's engagement moves with ProCredit's strategy.** If ProCredit's strategy evolves over time, moving out of the micro- and very-small enterprise finance market, MIGA risks losing a great majority of its Financial Inclusion portfolio.

A Look beyond Credit

4.108 **This section takes a look at Bank Group interventions that support the provision of financial services other than credit.** Most of the discussion in this report thus far has addressed issues related to credit. In this in part due to the historic genesis of financial inclusion which has its roots in microcredit and only gradually embraced other financial services as well, like payment, savings or insurance. It is also partly because most of the World Bank Group's interventions are related to the provision of credit. Yet about 30 percent of Bank Group interventions – and 50 percent of World Bank's recent AAA work –goes beyond credit (see Chapter 2, Figure 2.4).

4.109 **Getting a better understanding whether and under which circumstances access through payment systems leads to financial inclusion is one of the focus areas of a recently launched global work program of advisory services and analytical support.** Based on a limited literature, non-credit financial services appear to have a higher potential to benefit the poor. Payment systems in particular seem to be a plausible entry for the poor to connect to the formal financial system. High dormancy rates of newly opened accounts in India and low usage of newly opened accounts in low income and lower middle income countries more generally casts doubt on the assumption that access necessarily leads to inclusion (Kelly and Rhyne 2015). Recognizing this challenge, the World Bank is in the process of launching a program of about 15 advisory services and analytical support initiatives in a range of countries. A global program of an additional 27 such projects focus on consumer protection and financial literacy aspects with completion dates in FY15-18. Jointly, these advisory services and analytical support activities will be important efforts in understanding financial inclusion aspects beyond credit. Because few of these activities have yet been implemented

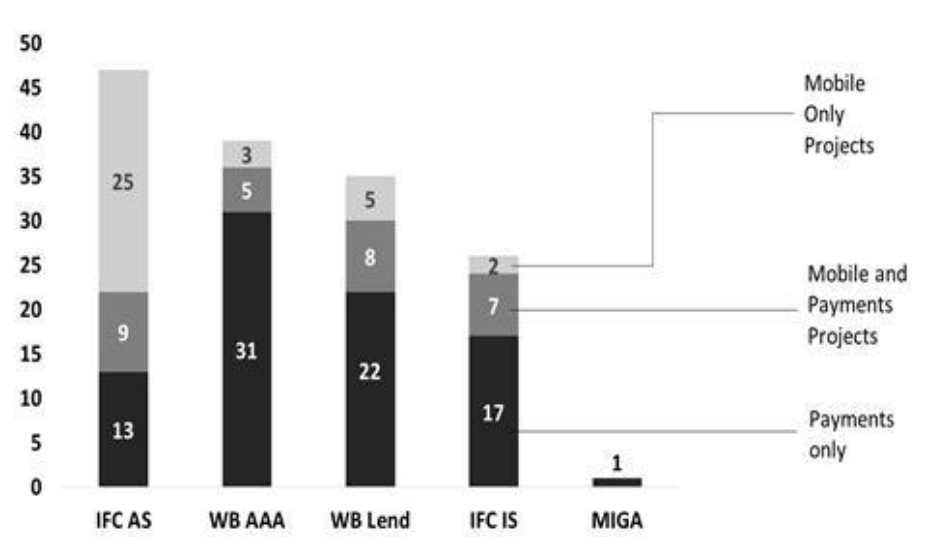
and none yet evaluated, the following discussion focuses on those interventions where the outcomes were already subject to project level evaluations.

TECHNOLOGY TO DELIVER ON FINANCIAL SERVICES – PAYMENTS

4.110 **Mobile channels[46] have the potential to provide access to financial services, in particular to payment systems in ways that are more cost-efficient, safe and convenient than existing alternatives**. In recent years, mobile channels are also being piloted for the provision of savings, credit, and insurance services. In many developing countries, MNOs have already unique assets and incentives to deliver these services in a sustainable and scalable way: trusted brands, widespread distribution, and secured access to communication channels.

4.111 **Looking at the broader space of payments, mobile financial services (MFS) and technology, advisory services are the most common tool of assistance.** Across all 148 Bank Group interventions in this space, IFC's advisory services is the most important single source of support to mobile money and MFS, whereas World Bank's AAA supports largely payment systems. The latter is also well aligned with the focus of World Bank lending, which is also on payment systems; these comprise national government-to-person payments, national person-to-person payments, online payments, international remittances, and a general payment related projects. Interestingly, also IFC Investment Services focus is on payment system, and not on MFS (Figure 4.23).

Figure 4.23. World Bank Group Support to Payments and Mobile Money



Source: The Global Findex Database 2014.

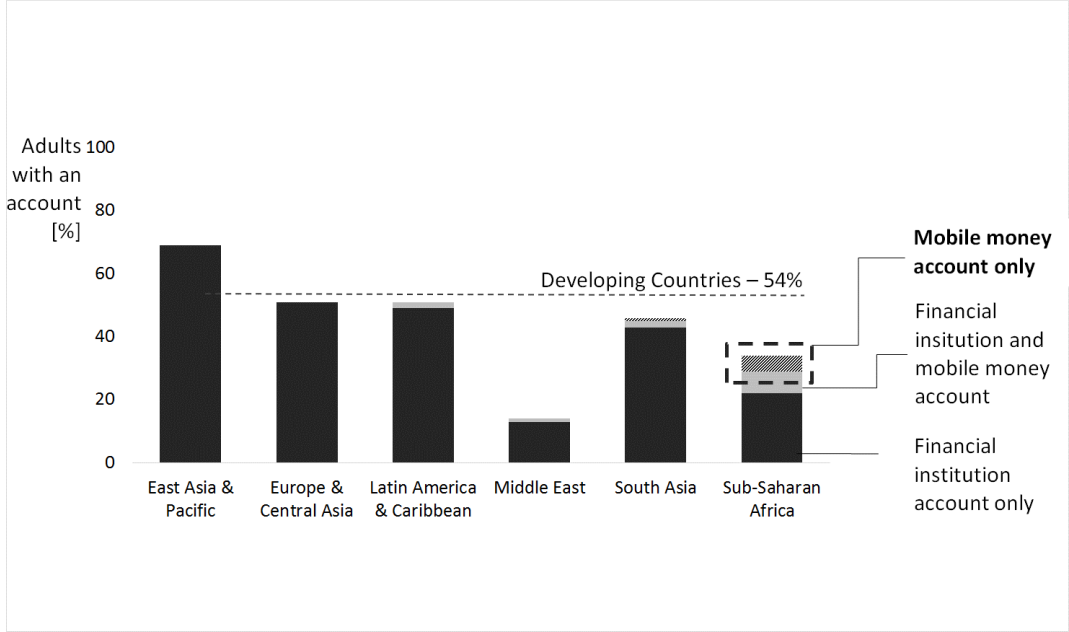
4.112 **Within the payment space, World Bank Group interventions target largely international remittances (44 projects).** This is followed by 15 on national G2P projects, 20 national person to person (P2P projects, 26 online payments projects, and 50 projects supporting general payment-related matters. These numbers are cumulative across these interventions and many projects had overlapping components of these different payment types. Because of the potential that the current financial inclusion debate allocates to mobile money and MFS, large parts of the following section discuss aspects of mobile money and challenges to its applications.

4.113 **Looking specifically at mobile money, uptake of such services has been very uneven across the globe, largely concentrated in Eastern Africa** (Figure 4.24). Between 2011 and 2014 the number of unbanked shrank by 20 percent, from 2.5 billion to 2 billion. Despite this progress, still more about half lack access to an account. Of the 54 percent of adults in developing countries who have an account, almost all have an account at a financial institution: only 1 percent has both a financial institution account and a mobile money account, and 1 percent have a mobile money account only.

4.114 **The exception is Sub-Saharan Africa, where mobile money accounts drove the growth during 2011-14, making this region the only region where mobile money is currently a major factor** in providing the poor with financial services. Even within the region, mobile account penetration is concentrated in Eastern Africa where mobile account penetration increase by 9 percent, whereas accounts with a financial institution remained unchanged at 26 percent. In some of these countries, the growth in account ownership during 2011-14 was largely due to an increased mobile account penetration (like in Kenya or Uganda) – or almost entirely, as in Tanzania. However, a few countries outside Sub-Saharan Africa may be a fertile ground for mobile banking, like Indonesia were the recent policy reform, assisted by the Bank Group, may have laid the foundation for future growth.

4.115 **Mobile account penetration need not necessarily reach the poor—yet**. Two contrasting cases are the neighboring countries of Kenya and Tanzania. In Kenya adults in the poorest 40 percent are significantly more likely than adults in the richest 60 percent to have a mobile money account (27 percent versus 14 percent). In Tanzania, the growth in mobile account ownership account for almost the entire increase in overall account ownership, yet poverty is a barrier to access to mobile accounts: Although account penetration increased overall by 23 percent (from 17 to 40 percent), increase in account penetration for the poorest 40 amounted only to 16 percent (from 7 to 24 percent), and account penetration grew by 26 percent for the richer 60 percent (from 24 to 50 percent). Kenya's higher level of mobile account penetration may partly be due to that fact that it was amongst the first countries (after South Africa) to embrace this concept (Findex data 2015).

Figure 4.24. Account Penetration and Mobile Money Uptake Globally, 2014



Source: The Global Findex Database 2014.

4.116 **Originally conceived to reduce the switching of mobile phone clients to competing MNOs and increase average revenue per user, MNOs have led the deployment of mobile money – not banks.** By 2014, there were 255 mobile money services available in 89 developing countries, corresponding to 61 percent of the developing world. During 2014 alone, mobile money was rolled out in six new markets: Dominican Republic, Myanmar, Panama, Romania, Sudan, and Timor-Leste (GSMA 2014). This trend was enabled by the parallel growth of mobile money agent networks that offer cash-in/cash-out services as low-cost alternatives to bank branches and even ATMs. The number of mobile money agent outlets grew by 46 percent during 2014, reaching a total of 2.3 million for 89 markets in developing countries – dwarfing ATMs and major remittance service providers in developing countries. Along with growth, competition also increased with 52 markets having two or more providers.

4.117 **Despite impressive expansion, mobile money is still largely used for payments services only**. In any market, payment transactions in the form of air time top-up or person-to-person (P2P) transfers are the dominant services offered by providers and used by customers. Air time top-up represented 62 percent of the total number of mobile money transactions performed in 2014; P2P transfers were 25 percent. In terms of transaction amount, P2P transfers, however, led, with 73 percent of the global mix. Saving, credit, and insurance constitute a very small portion in terms of transaction volume and amount. In recent research sponsored by the Financial Sector Deepening Trust of Kenya, it was found that approximately 34 percent of the users of mobile money services maintained a small balance in their financial

account, but only a small proportion (approximately one-sixth of users) indicated that they were in fact "saving." The majority of mobile money customers were cashing out their transfers almost immediately.

4.118 **Current challenges include interoperability and inadequate regulatory frameworks, affecting as many as 2 billion adults.** With the growing number of service providers in a single market, the issue of interoperability among the different mobile money providers as well as collaboration among different mobile money providers including banks, microfinance institutions, insurance companies, and other financial service providers become important. Regulators encourage interoperability among MNOs or direct MNOs to work with banks to offer mobile money services; however, because of monopolies and exclusivity arrangements of some mobile agent networks, such interoperability may be stalled, as it has been the case, for example, in Kenya.

4.119 In addition, regulatory deficiencies pose a limit to growth. Only about half (42) of the developing countries with mobile money services (89)[47] have adequate regularity frameworks – leaving the vast majority (1.9 billion) of adults in countries with non-enabling regulatory environment (GSMA 2014).[48] Of the 52 developing countries where mobile money is not yet available, 12 have a regulatory approach that slows down the launch of services, adding another 204 million adults to the list of those suffering from lack of enabling environment. Key regulagory challenges are summarized in Box 4.6.

Box 4.6. Regulatory Challenges

There are two main types of mobile money deployments, that is, the MNO-led model and the bank-led model. For the MNO-led model, the MNO acts as a de facto "bank". This model places most of the regulatory responsibility on the MNO and mobile money agents play a central role. The most successful MNO-led model is M-PESA. MNOs have been successful throughout the world to increase subscriber-base, but they have limited financial service discipline and are weak on compliance issues such as anti-money laundering and know-your-customer requirements. MNOs generally lack experience in financial services and payments risk and the regulatory and legal governance of payment systems.

Bank-led mobile means that a bank offers financial services to their account holders through a network of agents and also through on-line account services. Unlike MNOs, banks are best positioned to employ risk management programs that ensure regulatory compliance for money laundering and other risks, however, banks are naturally risk-averse, and will only launch a new service once it has been proven to be secure. Banks in developing countries have been slow to offer mobile financial services because of the perceived lack of return on capital investment.

The mobile money industry also developed a hybrid model where MNO Telenor purchased a 51 percent stake in Tameer microfinance Bank in Pakistan. Without interoperability between MNOs and banks, both MNO-led or bank-led models are closed-loop services. The lack of interoperability acted as a major block for mobile money services to reach scale. The regulator plays a key role in facilitating this interoperability between two main players, namely MNOs and banks. For the successful deployment of mobile money, collaboration is also necessary with other stakeholders in the mobile ecosystem, including airtime agents, telecom retailers, and regulators (Jenkins 2008).

Mobile money regulations have been evolving and there has been a sudden change of course that affected mobile money business directly. In Nigeria, the Central Bank decided to only allow bank-led and non-MNO led third party service providers to operate mobile money services in late 2012 after seeing the virtual monopoly created by M-PESA in Kenya. The Central Bank of Nigeria viewed that a dominant MNO-led mobile money provider could quickly create a monopoly and might pose a systemic risk for the country. MTN was the leading MNO as well as the largest mobile money service provider in Nigeria before this new regulation. The MNO had to suspend its mobile money service since the Central Bank's guidelines prohibit MNOs from playing a lead role in any mobile money service.

Sources: IEG; Jenkins 2008.

World Bank Group Engagement in the International Policy Setting Arena

4.120 **The World Bank has exercised intellectual leadership in the area of global remittances by influencing the international policy agenda.** Given the importance of remittances for the poor (see Chapter 1), the World Bank assumed leadership of a Global Working Group on Remittances (GWGR), authorized in 2007 and created in 2009. The work of this group 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. Remittance costs are tracked through the Remittances Price Worldwide databased, hosted by the World Bank.

4.121 **The World Bank Group has also played a role as thought leader in setting the global agenda on *digital* payments for financial inclsuion**, along with a small group of international policy makers (Box 4.7). For the G20 initiative of mobile financial inclusion, World Bank Group has been providing intellectual support though its analytic work. The Bank's Development Research Group produced the report "The Opportunities of Digitizing Payment" (World Bank 2014) explaining how digitization of payments, transfers, and remittances contributes to the G20 goals of broad-based economic growth, financial inclusion, and women's economic empowerment with evidences from the actual deployed of mobile money and MFS.

4.122 **More specifically, the World Bank has also been spearheading efforts in the areas of retail payment infrastructure by establishing Payment Aspects of Financial Inclusion** Task Force with the CPMI in November 2013.[49] PAFI will support the Financial Inclusion Action Plan approved by the G20 at the Seoul Summit in November 2010. Building on the work already carried out by CPMI and the Bank, this task force is expected to fill the gap in international financial institution guidance and recommendations. It aims to publish a report in the second half of 2015.

4.123 **Similarly, IFC has also helped to advance the financial inclusion agenda, in Africa through its partnership with the MasterCard Foundation.** The Partnership for Financial Inclusion in Sub-Saharan Africa involves $37.4 million in funding. The two main objectives

of this partnership are to expand microfinance and advance mobile financial services in Sub-Saharan Africa.[50] A third objective of this initiative is knowledge sharing and learning activities. The partnership aims to scale up microfinance and accelerate the development of mobile financial services in Sub-Saharan Africa to reach a total of 5.3 million previously unbanked customers on the continent by 2017.

Box 4.7. Important Players in the Mobile Money Space

The Groupe Speciale Mobile Association represents an interest of MNOs and related companies and has been the one of the main players in promoting mobile money in developing countries with its effort though Mobile Money for the Unbanked (MMU). GSMA was formed in 1995 as an association of mobile operators and related companies, and its mission is to support the standardization, deployment and promotion of the GSM mobile telephone system. The MMU Program is supported by the Bill & Melinda Gates Foundation, the MasterCard Foundation, and Omidyar Network.

The Gates Foundation has been actively engaging with the agenda of mobile financial services (MFS) and financial inclusion. Under its Financial Services for the Poor initiative, it has committed nearly $500 million to explore ways to increase access to financial services since 2006. The Gates Foundation's Financial Services for the Poor program aims to play a catalytic role in broadening the reach of robust, open, and low-cost digital payment systems, particularly in poor and rural areas—and expanding the range of services available on these platforms. Gates Foundation has also been an investor in this space. For investment activities, investors such as Omidyar Network have been supporting a large number of start-up mobile money providers and FinTech investments. A large number of venture capital and private equity funds have also been active investors in early or growth stage companies in this space.

Source: IEG.

Country and Project-Level Engagement of the World Bank Group

4.124 **At the country level, with a few exceptions, the World Bank Group has not been a major player in setting the agenda for regulatory reforms to facilitate a wider use of mobile money for broad-based financial inclusion.** In the majority of developing countries, IEG found that the World Bank Group has neither led upstream engagements that would have helped to develop enabling regulatory frameworks nor made major technical or financial contributions to mobile money and MFS deployments, except in a few successful cases.[51] For example, World Bank Group has not worked with M-Pesa in Kenya, nor did it play a major role in the growth of mobile money in Tanzania, two East African countries pioneering mobile money for about a decade.

4.125 **There are also countries were the World Bank Group's work has helped advancing the agenda.** For example, in Indonesia the World Bank's knowledge products, such as the 2010 report on Improving Access to Financial Services in Indonesia, addressed the importance of financial inclusion including mobile banking and mobile money. This report and a continuous flow of cutting-edge and quality knowledge of financial inclusion issues by the

Bank were critical and complementary to the government program of financial inclusion, as confirmed by IEG's mission.

4.126 **The World Bank implemented 88 projects related to mobile money and payment systems, primarily assisting countries with regulatory barriers.** Of these, 88 projects implemented during the period from FY07 to FY14, two-thirds (67 percent) focused on countries with regulatory barriers as per GSMA classification, and 33 percent on the countries that already had enabling regulatory environments. This is a sign of strategic relevance of Bank Group projects, given the need for regulatory reform.

4.127 **For IFC, the focus is more on countries with already existing enabling environments** where they supported 12 projects, compared to 10 projects in countries with regulatory barriers. This is understandable, as the financial service providers that IFC invests in would require a minimum of regulatory stability. Interestingly, regulatory barrier do not seem to necessarily affect the scale of IFC-supported operations or the commercial viability of mobile money services. For example, IFC supported the deployment of mobile money in countries with regulatory barriers as per GSMA classification, that is, bKash in Bangladesh and easypaisa in Pakistan. Both companies have been able to scale up their operations to reach a large number of previously underbanked and unbanked populations.

4.128 **Factors such as the size of the potential market, the lack of competition, the gap between mobile phone penetration, and the access to a formal banking service have more influence over the performance of mobile money deployments for the initial stage of payment services than the regulatory environment.** For example, bKash in Bangladesh succeeded in addressing this gap between the low level of the formal access to financial service and mobile phone subscription and it has increased its customer base to more than 11 million in just within two years of its operation.

4.129 **To achieve the broad-based concept of financial inclusion to offer savings, credit, and insurance in addition to payment services, of over-the-counter transactions is an important issue** that needs to be addressed by regulators and industry players. Over-the counter transaction means that at least one end of the mobile money domestic transfer is conducted though agents with unregistered mobile money customers without the individual mobile wallet of the user (either the sender or the receiver or both). These transactions have helped rapid expansion of mobile money services in countries like Cambodia, Bangladesh, and Pakistan. In Pakistan, this type of service represents over 90 percent of mobile money transactions.[52] This widespread phenomenon in developing countries may well be one of the major obstacles to realizing the concept of financial inclusion, as it would trap the industry to offer only payment transaction services such as domestic P2P transfers and bill payments with these unregistered customers, without access to savings, credit, insurance, and other services by the poor.

4.130 **IFC has generally been opportunistic in both providing advisory services and has invested in rather a limited number of mobile money or payment services providers** with mixed financial and development results. IFC invested in just a handful of investments totaling $54.3 million in 9 equity investments for mobile money and FinTech companies by the end of 2013, while IFC's advisory service committed over $36.9 million in 34 projects as of January 2014.

4.131 **For some of its investments, IFC took risks by investing early when its client companies were at the initial stage of its operation** (for example, companies like bKash in Bangladesh and Fino in India) before establishing solid revenues and profitability. It appears IFC had a good additionality for supporting these companies at the start-up phase. For bKash, IFC was an early investor in 2013 before an investment of Gates Foundation in 2014, however, Gates Foundation provided $10 million in grants to bKash, which was one of the critical factors of bKash's success. The grant supported implementation and technical assistance of new mobile money services. This technical assistance was implemented by the consultancy firm, Enclude. It provided a comprehensive assistance by fielding consultants in Bangladesh and supported bKash's market research, financial modeling and business and capital planning, agent network setup and rapid rollout, and the implementation of a risk management program.

Results

4.132 **Across all payment and mobile money-related projects, the majority were successful;** however, few projects were evaluated. Most projects evaluated were World Bank lending projects in the payment space of which the large majority (15 out of 16 evaluated) were successful. For example, the Bank's Development Policy Loan in Mexico[53] aimed to enhance access to finance by improving the enabling environment and financial system stability, including removing the barriers to mobile payments system. The mobile banking system was developed following this project, by combining the new regulations supported by this intervention with the already existing banking regulations. Four of six evaluated IFC advisory projects were positive, and two were rated negative by way of development outcome. For IFC investment projects, two were positive and one negative.

4.133 **Too few projects on mobile money have been evaluated to derive statistically representative conclusions; hence the below discussion focuses on illustrating drivers of success and failure.** For example, with IFC's combined Investment and Advisory Services supports, FINO, an Indian financial inclusion solutions and services company, succeeded in increasing an access to financial services in rural communities. Through its 32,000 business correspondents, rural client enrollments have increased substantially. More than 10 million new customers were added in 2011, with another 12 million new customers in FY12. Another joint Investment and Advisory project to support a new mobile banking operation in one of

the Europe and Central Asia Region did not successfully reach the targeted number of active customers for its new service.

4.134 **For the companies offering payment services and mobile money, supported by IFC's investment and/or advisory services, results so far have been mixed in terms of commercial viability, sustainability, and development impacts.** Some of IFC's client companies have shown commercial viability of mobile money or payment business by generating profits with a substantial increase of its customer base, while others have faced difficulty operationally and/or financially as they struggle to reach scale. The mixed results of IFC investments are not surprising, considering the status of the mobile money industry. The successes of M-PESA, bKash, and a few additional mobile money deployments are still the exception, and not the norm. In fact, as noted in the latest 2014 MMU report, the vast majority of mobile money deployments launched to date suffer from underinvestment and struggle to become profitable while some succeeded in reaching scale and to generate sufficient revenues from mobile money operations.[54]

4.135 **bKash is one of the successful IFC investments so far for mobile money as it has increased its customer base substantially.** bKash started its commercial operation in the second half of 2011, grew its customer base to 2 million accounts by the end of 2012, and increased to 11 million registered accounts by the end of 2013. bKash now has over 5 million mobile financial services accounts, through which low-income Bangladeshis are conducting more than 400,000 transactions per day through more than 50,000 financial service agents. Although Bangladesh's central bank has approved more than 20 licenses to offer mobile financial services, bKash has a market share of 50 percent of the transaction volume.

4.136 **In Pakistan, IFC and CGAP successfully helped deploy new mobile money services for Tameer Microfinance Bank**. It has expanded access to financial services to geographical regions that were hard to reach through conventional banking channels. Mobile money deployment has enabled the bank to serve over 94,000 clients and over 190,000 micro-savers (9 percent and 7 percent of market share, respectively) and has over 70,000 mobile money accounts.

4.137 IEG found that two phases of advisory services to Tameer Microfinance Bank (536687 &551549) effectively assisted the greenfield MFI to upgrade its technology, roll out a mobile banking product, and train staff to use the new information management systems and branch managers in other areas, including HR and marketing management. IEG's review of the first project found that it was a very successful project in terms of development results as IFC and CGAP helped the bank introduce a new mobile money service. CGAP had an important role as it introduced Tameer Microfinance Bank when it was a relatively small microfinance institution to Telenor, one of the major MNOs. Telenor took a 51 percent stake in the bank to benefit from mobile money deployment. CGAP also provided grant funding for rolling out

the product. The main success drivers of this project includes IFC joint Advisory/Investment operation, coordination with CGAP, client company commitment & involvement, and good quality of consultant work.

4.138 **IFC supported WIZZIT, the third-party mobile money processor in South Africa, with both advisory and investment operations.** In 2004, WIZZIT started to provide standard banking services via mobile phones to the unbanked and under-banked populations, with the notion that the poor needs full banking services. In 2008, CGAP also offered a grant technical assistance to test different approaches to customer acquisition to achieve a steeper growth. Its operation has been facing a number of issues from finding a suitable banking partner to identifying financial products that are attractive to the poor.

4.139 In comparing the success of M-PESA, a Harvard Business School case study (Rangan 2010) points out the problem of the WIZZIT business model as follows: "Founders of WIZZIT were very creative in bringing the costs down dramatically and improving access to banking services, so the poor could afford to bank. The problem is that this is not the way that the poor think of money. They hardly have any savings. Their main need is money transfer." Regulatory uncertainty and changes on KYC requirements, such as anti-money laundering and combating the financing of terrorism, also had negative impacts on the business of WIZZIT and MTN Banking, another mobile banking service in South Africa

4.140 **Since mobile money deployments are new services and often start as greenfield start-up companies, it would make sense to support companies with both AS and IS operations.** Grant funding from the U.K. Department for International Development to M-PESA and Gate Foundation's funding to bKash were instrumental to the success of these new mobile money deployments. IEG's review of IFC's portfolio finds that IFC also had a joint Advisory/Investment operation that supported the same client companies at the country level including in Bangladesh, Pakistan, South Africa, and Vietnam with mixed results so far.

4.141 **Although it is a mid-term review, an independent evaluation[55] of IFC's partnership with the MasterCard Foundation confirmed a good work quality of the IFC team there and its collaborative approach to developing mobile financial services (MFS) in Cote d'Ivoire.** In the initial stage of the project, IFC worked with the industry players and the regulator to help develop market knowledge and explore business models by sharing knowledge and expertise at industry workshop in close collaboration with CGAP. With the presence of a local project coordinator and MFS specialist, IFC team undertook market research with cocoa farmers, leveraged its existing relationships with a cocoa exporter to come up with a business model to pilot an MFS solution for cocoa farmers. The IFC team has also been working with the bank's social safety net team to explore the potential of digitize the government-to-person payments.

SAVINGS

4.142 **About 20 percent (169 projects) of World Bank Group financial inclusion portfolio have a component addressing issues related to saving; however only seven are stand-alone saving-focused interventions.** These projects are evenly distributed across World Bank lending, IFC advisory and investment. Savings interventions are concentrated mostly in Africa and South Asia Regions, with 30 percent and 27 percent, respectively.

4.143 **IFC got engaged in advancing the saving-related agenda of financial inclusion through its investment very recently.** More than 80 percent of IFC investments in savings were approved between 2007 and 2013 and are concentrated mostly in the Africa and Latin America and the Caribbean and Regions, closely followed by East Asia and Pacific and South Asia.

4.144 **IFC promotes savings in the majority of projects (more than 50 percent) through financing transformations of MFIs into deposit taking institutions and setting up greenfields** or new MFIs, which are then encourages to raise local deposit. Quite often, these interventions were indirectly supported by other Bank Group projects which provided upstream support to governments/central banks in order to develop regulations that enable the aforementioned transformations. Faulu Kenya is an example of the transformation of the MFI into a deposit taking institution, which is also supported by technical assistance from IFC Advisory Services. The remaining investments mostly financed IFC investees that have successful operations, and IFC financing provides additional support to them for expanding their services to more beneficiaries by way of central bank regulations. FINO India is an example of a financial institution benefitting from the central bank's regulation to allow MFIs to offer broader range of financial services (including savings), after which IFC Investment Services financed FINA's operations to achieve this objective.

4.145 **As shown above, IFC's investments in MFIs was associated with raising relatively more savings than their peers.** Despite this finding, which pertains to the general effect of IFC's investments in MFIs, it should be noted that 8 of the total 14 evaluated investments that had an explicit savings component got a positive development outcome ratings; 30 percent got a negative rating.

4.146 **IFC advisory services advance the savings agenda largely by developing new products and technology upgrade.** Contrary to IFC investments, its advisory services' used to focus on savings throughout the entire evaluation period FY07-13. Again, a significant share of projects (19 of 51) are focused in the Africa Region. Most advisory support is geared toward individual MFIs (80 percent) and provides support in developing new saving-related products (38 projects), followed by projects focusing on technology upgrades, staff trainings/capacity building, and risk management. Eleven projects supported

transformations of MFIs into deposit taking institutions, which were in turn supported through technical assistance aimed at product development, risk management, and capacity building. The upstream interventions and mixed intervention projects focused mostly on financial literacy and financial infrastructure (of which, savings was also a part). Support to broader policy reform issues related to savings are rarely addressed by IFC advisory services. Less than 10 percent provide also upstream support.

4.147 **Of the 26 evaluated IFC advisory projects, 13 received a positive success rating and 15 percent (4) a negative rating.** An interesting project worth mentioning is a stand-alone savings project in Cambodia, where IFC assisted Angkor Mikroheranhvatho Co, Limited (AMK) MFI develop its savings product to at least 50,000 clients by offering the product to all the clients residing within a 5 km radius of an AMK branch. The project was designed to be demand-led and tailored to the specific needs of the beneficiary banks/MFIs in Cambodia in an area of core IFC expertise. It contributed to the strategic objectives of the government of Cambodia to further develop and strengthen Cambodia's financial sector and was rated as positive by way of development outcome.

4.148 **The World Bank provided assistance mainly through technical assistance and policy reform work, addressing saving-related issues**. Most savings-related World Bank lending projects are in the form of technical assistance (28), aimed at building capacity of MFIs and central banks. The World Bank also supported 19 upstream interventions and 3 financing projects. Most of these projects are in the South Asia Region (21), followed by Africa (15).

4.149 **World Bank lending related to savings has been largely successful, owing to the Bank's good technical analysis.** Of the 26 evaluated projects, 21 had a positive development outcome rating. The most common driver of success found among these projects (for 18) turned out to be an adequate technical analysis to ensure quality at entry; client/government commitment followed as the second best driver in 14 projects. It is worth mentioning here that of these 26 projects, 20 had at least a component of an upstream intervention, which also explains the government commitment playing a crucial role in the success of these projects. World Bank AAA projects supported saving component as a part of a mix of advice for financial sectors and by targeting greater financial inclusion objectives.

INSURANCE – PILOTING WHAT THE POOR NEED MOST

4.150 **Most people in developed countries take insurance for granted, yet micro insurance products are only now being piloted for the poor.** Overall about 10 percent (117 projects and AAA) of World Bank Group interventions in the financial inclusion space deal with micro insurance. Across all Bank Group instruments, there is a somewhat increased emphasis on insurance in recent years. Relatively more interventions address regulatory issues (12 percent) while funding of micro insurance companies is rarer (6 percent). Of these 117 Bank Group

financial inclusion projects with an insurance component, IFC investment has the largest share with 28 percent, and World Bank lending has a smaller share (23 percent). Regionally, these projects have often targeted Latin America and the Caribbean and South Asia.

4.151 **IFC investments in the insurance space have been rather recent.** Approximately 70 percent of investments were approved in the period 2010-13. About half of the portfolio was classified as focusing exclusively on insurance, both life- and non-life (15 projects). For example, IFC's investment in Protecta, Peru's first and largest specialized micro-insurance company, focused on life insurance as well as annuities and accident insurance products. The remaining portfolio often mixed the provision of insurance with other products, in particular credit. Thirteen such projects were delivered through microfinance (both bank and non-bank) institutions. IFC's quasi-equity investment in IFMR Rural, India, is one such example, as the company provides a comprehensive range of financial products; IFC's investment in IFMR aimed to promote this business model with "potential to move beyond microcredit" through both conventional credit delivery on the asset side and "strong strategic partnerships to promote savings/investments/insurance on the liability side" (Board Report 2013).

4.152 **Of the five evaluated projects, only one received a positive development outcome rating pointing at the challenges of such projects.** Only two of the projects received a positive private sector development rating. Although Protecta eventually obtained a development outcome rating of moderately unsatisfactory given concerns about future profitability, sponsor commitment, and increased competition, the project received a positive private sector development rating as the company covered previously underserved segments and most of its branches were outside of Lima. In addition, by providing equity to the formation of this micro-insurance company, IFC played a catalytic role in expanding the array of financial services available to a previously underserved segment of the population (EvNote 2013).

4.153 **Also IFC advisory services' focus on insurance increased in recent years**. More than 60 percent of IFC advisory projects supporting the insurance sector were approved after 2010. Forty percent of projects are in the South Asia Region; nine of these are in India. Two-thirds of advisory projects with an insurance component also included other services. Most projects were done through downstream technical assistance (70 percent).

4.154 **For the World Bank, these was no particular increase in insurance-related lending over time; the Africa Region received the largest share of insurance projects; East Asia Pacific saw the biggest share of projects that focused exclusively on insurance.** The periods FY07-09 and FY10-13 saw seven and nine projects approved, respectively. Half of these (eight projects) involved upstream interventions that included insurance as one of their multiple objectives. For example, in Peru, a series of Development Policy Loan prior actions aimed to strengthen the capacity of supervised financial institutions by enacting norms that ensured adequate management of over-indebtedness, corporate governance arrangements, and

underwriting standards so as to allow for "an expansion in the services that financial institutions may provide and enable the development of new instruments targeted at the poor such as micro-insurance." In Tanzania, the FIDP II project provided more explicit support for the development of a supervisory methodology and policy framework for the insurance sector – including the drafting of regulatory guidelines and supporting accounting principles and standards – so that the industry would meet the appropriate legislative requirements. According to the project's ICR Review, the country's FSAP emphasized the needs in insurance regulation and supervision, which were subsequently addressed by the Insurance Supervisory Department, hired with FIDP II funds.

4.155 **An interesting innovation is agriculture and weather/index-based insurance, intended to buffer income shocks due to droughts, floods or natural disasters – but such interventions have been rare.** Eight such World Bank lending projects were approved during the evaluation period FY07-13, of which three were in Africa. For example, in Ethiopia, the Financial Sector Capacity Building's supported index-based weather insurance by providing technical assistance to insurance companies and potential clients, through feasibility studies to determine the scalability of index-based weather insurance and explore potential linkages to input financing, and by determining the capacity and infrastructure investments needed for the National Meteorological Service Authority to provide data for the expansion of index-based products.

4.156 **IFC advisory projects also supported agriculture or weather/index-based insurance, half of the eight projects located in the Africa Region.** For example, a project in Rwanda would focus on developing local capacity and a favorable environment for delivering flexible, affordable, and responsive weather insurance to low-income farmers to achieve long-term food security in the country. In Mozambique, a project developed and deployed two index-based weather insurance products against flood and drought events.

4.157 **Support to weather/index-based insurance schemes has been most prominent in AAA work.** About half (12) of the 27 insurance-related AAA activities dealt with such agriculture and weather/index-based insurance. These projects were evenly spread across all regions. In some cases they were broad programs; in China, the Innovations for Agricultural Insurance AAA was developed in response to a request from the Ministry of Finance to conduct a comprehensive assessment of the agricultural insurance industry in China and provide recommendations for its development. In other cases they can have sector-specific components, as in Jamaica, where the main output produced was a feasibility study for Weather Index Insurance to protect the members of the Coffee Industry Board, and the facilitation of a pre-feasibility study for developing and implementing a Caribbean Catastrophe Risk Insurance Facility (CCRIF) parametric insurance solution for agricultural losses in Jamaica. Another example is the World Bank engagement with the Agriculture Insurance Company of India Limited (Box 4.8).

Box 4.8. World Bank Technical Assistance for Agricultural Insurance in India

Crop insurance for small farmers can provide income smoothing in case of drought, flood or natural disaster. India had the world's largest crop insurance program, covering 25 million farmers. Yet issues in design, leading to long delays in claims settlements, as well as problems with pricing and product design, limited its growth, leaving 95 million farmer households not covered, despite significant government subsidy.

In 2006 the World Bank launched non-lending technical assistance to the Agriculture Insurance Company of India Limited, a state-owned agricultural insurance company, aimed to (i) reform National Agricultural Insurance Scheme so that it operates on a commercial, actuarially computed basis, albeit with Government subsidizing premiums up front (as opposed to paying claims in arrears) and (ii) to extend crop insurance to the majority of India's farmers, especially to smallholders operating in rain dependent states.

Phase 1 of the project dealt with the development of a sound actuarial rating methodology (a "pricing model") for agricultural insurance. Phase 1 cost $215,000 funded by the World Bank and the Swiss Trust Fund for Rural Finance Reform in India. Phase 2, funded by FIRST, provided a design for weather insurance contract design and ratemaking. With this World Bank technical assistance, the government piloted a modified National Agricultural Insurance Scheme, a market-based scheme with involvement from the private sector.

The new program had the potential to reduce claim settlement time, reduce distortions induced by government subsidy, and reduce basis risk, while substantially expanding the number of households covered. The pricing model which the Bank's technical assistance had proposed has become the industry standard, utilized not only by the state-run insurance company, but by new private players in the market who had rapidly growing market share. In addition, proposals for refining products and technology for assessing losses, utilizing more refined crop cutting samples and satellite-based meteorological data, were being developed, piloted and tested by the government.

Source: IEG.

4.158 **Lessons on weather/index-based insurance mainly point to the complexity of these schemes and the low uptake**. Lessons learned include that not only (historic) weather data are required for weather index insurance that protects farmers, but also vulnerability functions for the different crops. If these data are not appropriately available, much time-consuming work is required before a feasibility assessment of index insurance can be undertaken. In Jamaica, this is made more difficult by the prevailing short-term multi cropping on very small farms, given the different vulnerabilities of different crops. Alternative approaches are hence required, such as the compilation of historic crop damage data in the best possible resolution; but this requires considerable effort in the absence of standards and a centralized data repository. In such circumstances, micro level index insurance sold directly to farmers is not promising, and macro and meso level implementations of index insurance are recommended. When key milestones depend on partners (like Caribbean Risk Managers) with resources committed to many other ventures, the progress of the project is subject to their availability and is more difficult to predict. Potential sources of funding for macro level weather index insurance premium should be addressed at an early stage. Additional lessons on index-based weather insurance are summarized in Box 4.9.

Box 4.9. Weather Index Insurance

Index-based weather insurance protects farmers against risks such as drought and flood by linking payouts to the weather requirement of the insured crop, and may encourage investment in more weather-sensitive but higher value crops. For example, instead of a payout in case of low yield, a weather index insurance policy would pay if there was too little (or too much) rain as measured at a local weather station or by satellite. Using an index as the basis for the insurance reduces information requirements and bureaucracy, can increase transparency (facilitating underwriting), and can reduce costs allowing greater affordability to farmers. The Bank has assisted a number of countries in piloting weather index insurance.

Although this insurance has the potential to help small farmers mitigate the risk associated with extreme weather, early pilots of weather-based index insurance sponsored by the Bank resulted in low take-up, due in part to high costs, low trust, and the difficulties of communicating the benefits of this product. Key design features that may assist small farmers in adopting weather insurance include measures to improve product understanding, increase trust in the product provider, and reduce farmers' liquidity constraints to paying premiums. However, the Bank has yet to find a robust service delivery model.

Sources: IFC 2011; World Bank 2015 http://www.worldbank.org/en/news/feature/2015/04/15/making-index-insurance-work-for-the-poor.

What Do We Know about Beneficiary Effects?

4.159 **Only about 2 percent of World Bank Group projects attempt to actually measure beneficiary effects; most track volume of finance provided, that is, an output.** As pointed out in the preceding section, the design of M&E systems of World Bank projects has improved recently (FY09-13). Yet, the usage of indicators remain a challenge, according to IEG's analysis of the latest cohort of evaluated projects. Of the 255 evaluated financial inclusion projects, approximately 75 percent contained financial inclusion indicators. Of these, most measure the extent of finance provided or level of financial intermediation (about 45 percent), that is, the number and volume of loans; a limited share of these (ten percent) report also on number and volume of deposits and other account holders.

4.160 About 20 percent of projects track outputs related to the provision of workshops, trainings, reports, and studies. For example, in the case of World Bank lending support through Ghana's Rural Financial Services project, a training component measured training sessions held and people trained, but not the outcome or impact of the training. Overall, the project was measured by number of rural microfinance clients (which substantially increased), number of accounts and assets of rural financial institutions, but not on the impact of the finance on rural clients' income, well-being or microenterprise performance. An equal share (20 percent) track the performance of institution or MFIs. About 7 percent track changed in the enabling environment or other goals related to policy reform work. Only 2 percent report on beneficiary effects such as improvements in welfare or increases in income. In assessing beneficiary effects, the availably of baseline data is often a challenge (Box 4.10).

4.161 **Those few projects that focus on tracking beneficiary effects indicators focused mostly on tracking the number of jobs created by MSMEs, and the productivity and profitability of MSMEs, as well as income and welfare improvements to beneficiaries overall.** Within the beneficiary category, most are with World Bank lending projects, only one is an IFC investment. IFC does gathers data on job creation systematically in the Development Outcome Tracking System at the client level; however, these data refer to jobs created by the actual MFI (that is, IFC's direct client), not by microenterprises supported through credit.

4.162 One of the few examples from IFC's portfolio that successfully captured jobs creation is the IFC project in which IFC provided a loan to the Romanian-American Enterprise Fund to on-lend to Romanian microenterprises. According to evaluation documents,

> The project was to provide credit to small borrowers so that they could create jobs for themselves and others… As was expected, the project did create jobs for the borrowers. At appraisal, the project had intended to create over 5,000 jobs (about 2,000 for women), and the number of active borrowers data appears to indicate that this was achieved. At appraisal, the project had also expected to sustain another 15,750 jobs (6,800 for women), but no data on the multiplier effect is available from project files. In general, labor market conditions were improved by growth in the economy that resulted in high demand for construction workers, and large-scale emigration to Italy and Spain. By 2006-07, labor market conditions had tightened and unemployment was 4-5 percent, down from 7-8 percent in 2003-04.

Box 4.10. Setting Baselines for Beneficiary Assessments

Note that in both cases there were issues with setting a baseline; this can be an issue in trying to assess beneficiary effects. In the examples here, surveys had to be commissioned to understand beneficiary effects.

In Bangladesh, the World Bank Learning and Innovation Loan, Financial Services for the Poorest, aimed to reduce "the number of the 'poorest' through use of microcredit and other financial services to enhance incomes and livelihood." Indicators used to track achievement of this objective included "income of at least 50 percent of those that are earning less than 50 cents a day raised to more than 50 cents a day" and "incomes of at least 50 percent of those earning less than a dollar/day raised to more than a dollar/day." At project closing, these indicators stood at 93.5 and 83.4 percent respectively. However, differences in baseline household income figures in the 2005 and the 2007 Impact Evaluations suggest a lack of established baseline earning figures. Lessons from the ICRR include: "a baseline survey is essential for assessing targeting success. In this type of projects, there is a possibility of selection bias because of the strong incentive of the implementing agency (in this case, the POs) to include beneficiaries who are more likely to succeed. So, the beneficiary selection process needs to be strictly monitored."

In Mongolia, the World Bank lending Sustainable Livelihoods project was designed to help establish a Microfinance Development Fund, strengthen revolving funds, and develop an index-based livestock insurance scheme. According to the ICR, although indicators were not designed at baseline, a 2006 survey on changes in the livelihoods of sub-borrowers of the Fund measured the monetary income changes among sub-

borrowers. These measurements were clustered under the indicator: "micro-finance services available and used by poor households to build assets and to smooth consumption on a financially- and institutionally-sustainable basis." According to the ICRR, the ICR lacks information on reduced poverty incidence but notes that 271 out of 313 formal herder groups took out loans for income-generating and risk-mitigating activities and also that 90 percent of borrowers reported an income increase.

Sources: Implementation Completion Report Reviews.

4.163 **One World Bank project that collected considerable information on beneficiaries was the Andhra Pradesh Rural Poverty Reduction Program** where, according to IEG's recent PPAR, good monitoring and evaluation, including a baseline survey and impact evaluation, were conducted and confirmed household level benefits of the project's financing. The impact evaluation further confirmed strong benefits for the poorest beneficiaries. Impact evaluations may not answer all questions about a project, including their systemic efficiency and sustainability, but they do illuminate direct beneficiary effects.

4.164 **IFC does publish occasional success stories or lessons learned reports; systematic assessments of beneficiary effects are rare to date.** IFC typically presents experience in a format of a narrative or inform of lessons learned, for example the recently presented a report on "Small Beginning for Great Opportunities". This report presents a wide range of lessons to be learned from IFC's experience in microfinance. However, few of these publications or data sources provide systematic evidence on actual beneficiary effects. An exemption here is the recently published in-depth study on the success of agriculture loans in rural areas in Tanzania (Tower, Noggle and Stuart 2014).

4.165 **The assessment of beneficiaries in the context of this evaluation is therefore limited to structured interviews and focus groups** conducted in the course of the missions that the evaluation team undertook when preparing this report. An example of such an assessment is presented in Box 4.11. Collectively, these assessment confirm the results of the broader literature, that is, that the expectations of microcredit pulling millions out of poverty have not been fulfilled. Credit helped the poor manage their day-to-day struggles and provides choices and options. Microenterprises visited during missions barely grew, yet MFI clients found the funds obtained through credit useful in paying school fees or paying for emergencies.

Box 4.11. Beneficiary Assessment – Example from Mexico

The beneficiary consultations with five groups of clients of MFIs and local saving and credit associations, so-called *Sociedades Cooperativas de Ahorro y Préstamo* found an overall positive, although not transformative, impact of the interventions. While gaining access to formal sources of financial services was not transformational in so far as lifting them from poverty it did help them improve their quality of life. Some of the groups the mission met with in-situ inhabited quite hard to reach locations with poor road access. MFI and SOCAP representatives have to visit client groups in their locations because transport cost was otherwise a significant barrier to these clients, particularly when measured relative to average transaction ticket.

Lending was typically structured as group-lending, though individual contracts are signed with each member of the group. Uses of the funds varied ranging from working capital to fund microbusiness inventory (for example, resale of cloths in small village) to animal feed to raise goats and chicken for sale in local markets. The microbusiness and family finances comingle and it was not unusual for borrowers to allocate part of the proceeds from the loans to meet family expenses (for example, school fees for their children).

Typically the borrowers are women who undertake microbusiness operations to complement the income of their husbands, who have unsteady work and income. Some of the borrowers showed a sophisticated financial capability acumen "solving" demanding cash flow management problem over the duration of the borrow-repayment cycle.

Borrowers identified a range of benefits including the generation of small profits that were being used to fund improvements to their precarious houses, a better ability to cope with unexpected expenses and demands (for example, a sudden illness of child) made possible by the group lending—the weekly group payment was still "collected" by MFI agents with individual borrower shortfall covered from the prefunded pooled rainy-day fund that the group sets up to cover emergencies, and the capacity to afford better schooling opportunities for their children.

Some of the groups reported intense competition from other sources of funding but attached valued to ongoing lending relationships with the MFI agent representative. Most of the group have several borrowing cycles with the MFI. MFI funding was provide at the equivalent of 80% annual rate, much higher than that of the associations (though borrowing from this source has hidden opportunity costs associated with the requirement pre-deposit for the duration of the loan as a qualifying condition for borrowing). The agents provide a modicum of financial education to these clients.

Source: IEG country case study Mexico.

4.166 **Realizing the need to track progress toward the Universal Access Goal, the Bank Group has started efforts to develop an M&E framework.** Through such an M&E system, the Finance and Markets Global Practice intends to understand whether reforms succeed and whether they stimulate investment, behavior change, economic growth, and improve overall quality of life. A standardized M&E Framework for the Financial Inclusion Support Framework (FISF) global program, and FISF Country Programs has been drafted. It focuses on direct outputs, outcomes and impacts of financial inclusion interventions; welfare indicators are not foreseen in current drafts. The Global Practice also started working on developing a framework to measure the results of World Bank on advisory services and analytics.

4.167 **As the World Bank Group is ramping up its support to client countries in their pursuit of the 2020 universal financial access goal, M&E has become more important than ever.** The broader academic literature, as well as this evaluation, confirm that the expectations that microcredit would pull millions out of poverty as not been fulfilled; yet credit, and with it other financial services, have helped the poor manage their day-to-day lives, provide choices and risk mitigation mechanisms. In view of these rather modest effects to date and the nature of the policy options that the World Bank Group is likely to consider going forward, a sequenced approach would provide a sound alternative.

4.168 Such a sequenced approach would focus on clearly delineated and evaluable interventions; it would build on deriving lessons from past and ongoing interventions and feeding these lessons into the design of future projects. With only 2 percent of Bank Group operations reporting on beneficiaries outcomes, such a feedback loop clearly does not exist.

4.169 **Having a well-established M&E system in place has become even more crucial, as the World Bank Group experiments with ways that could help achieve the envisaged universal access goal such as massive roll-outs of no-frill accounts or digitalizing G2P payments.** Such a "push"-approach for financial inclusion is likely not only costly, but will also require subsidies. World Bank Group will need to keep an eye on outcomes to ensure that financial services are rolled out to the people who can productive make us of them – and that these services make their lives better. This is even more relevant in view of the high dormancy rates of recently opened no-frill accounts in India, for example, where 72 percent of accounts show zero balance (Demirguc-Kunt, Klapper, Singer and Oudheusden 2015).

Conclusion

4.170 The World Bank Group supports MFIs in the delivery of their services through funding, either through line of credits or through direct investments, or through advisory services, that is, downstream technical assistance. Of World Bank's entire lending portfolio only 2 percent in volume and 6 percent in terms of numbers of projects focus on financial inclusion. For IFC, the share of investments in MFIs represents a larger share of its portfolio: 10 percent in numbers and 4 percent in volume (dollar value).

4.171 Overall, World Bank downstream lending activities focus heavily on the most excluded countries. Its work focuses on credit, even though a significant share of its downstream technical assistance focused on payments, savings and insurance, a promising trend given that non-credit service are reported to have equal – if not higher – benefits for the poor than credit only.

4.172 With regard to the sustainability of World Bank financial inclusion interventions, some level of subsidization is likely to remain going forward. Even though technological progress may eventually allow MFIs to reach the lower end of the retail market, in the near term, efforts to reach rural areas and to achieve mass rollouts of no frills accounts are likely to involve some subsidy. SHGs have routinely involved subsidy, while the costs of, no-frill accounts are often absorbed by state-owned banks. Reaching the "last billion" of unbanked that will persist beyond 2020 is likely to pose as yet unknown challenges to systems and associated costs; those who remain unbanked at that time are likely spread out over many countries and will predominantly be located in the rural space. To date, the World Bank has not harmonized its

approach to subsidization nor adopted a uniform philosophy across networks (now global practices) and activities.

4.173 A challenge in World Bank lending projects has been excessive complexity, often manifested by too many components and subcomponents. During the last few years, the Global Practice has internalized this lesson, however, and design complexity improved. For M&E, the trend is less pronounced. Even though the design of M&E systems improved, usage of indicators remain a challenge.

4.174 Within the World Bank Group, IFC has the largest volume of downstream investments in financial inclusion. On average, these investments are small, but they occur in markets where they matter, that is, they reach countries that have high exclusion rates. IFC typically supports fully licensed banks, but also NBMFIs. IFC's investment in MFIs struggle with achieving adequate business performance, but exhibit remarkable private sector development effects and good economic sustainability. The root causes for the low profitability of IFC's MFI investments were higher start-up costs and slower loan growth. Microloans are a relatively small services line of IFC-supported banks, accounting for only 5-10 percent of their mixed loan portfolio, with the rest supporting client taking out larger loans, including SMEs. This is not necessarily a bad thing as, at least, SMEs are likely to benefit from such loans – and eventually microenterprises may benefit from the strengthening and deepening of the smaller end of the commercial finance market.

4.175 IFC work quality was found to be high – and is hence not to blame for the low business success. This raises the following question: whether IFC's approach of relying on self-sustaining MFIs as their main business model has found it limits – beyond which catering for the very low retail end of the market would only be feasible with subsidies. For example, IFC-supported MFIs are found hesitant to enter the rural space for a range of issues. Therefore, going forward, IFC would have to find innovative business models, products and technologies that would enable reaching the poor, including through innovations that would allow lowering transaction costs. This is likely only possible through a trial-and-error approach or a research agenda that pilots such innovative business model as IFC tries to scale up it MFI business. Important for such an approach would be that IFC reports on the share of the microloans reaching the poor by using loans sizes, cognizant of the country specific income situations and granularity of the economies.

4.176 IFC-supported MFIs managed to increase resource mobilization by growing the number of savers amongst their clients – more so than their peers. This is a potentially promising development given that savings has been found to have more positive effects for the poor than credit.

4.177 IFC advisory projects build capacity with local MFIs, help client MFIs develop products and services, and improve risk management processes. Measured by their development outcome rating, about two third (64 percent) of these projects are successful, corresponding about to the remaining access to financial advisory portfolio. IFC advisory projects rate high on output achievement (83 percent rated successful) and on strategic relevance (75 percent rated successful). Performance drops when it comes to outcome achievement, where only 62 percent of projects are successful, 10 percent lower than the average access to finance advisory service. Yet IFC advisory projects stand out for their high impact achievement – at least in relative terms – and for their high level of efficiency.

4.178 Looking at the changes in financial inclusion during 2011-14 (based on the Findex data, financial inclusion went up for the bottom 40 percent in countries where the Bank Group had more projects; however, there is no statistically significant relationship between financial inclusion going up and more financial inclusion projects. Further, IEG's analysis showed that there are payoffs in focusing on credit information and on deepening the financial sector, as it seems to enhance the World Bank Group's overall development effectiveness. There are payoffs in focusing on poorer countries as they showed an increased rise in financial inclusion rates (probably also because they had more to catch up). FCS countries remain more challenging.

4.179 The small number of countries with financial inclusion strategies in place during the portfolio period suggests a lot of potential for gaps, lack of complementarity and sequencing, and ad hoc-ism.

4.180 The qualitative beneficiary assessment conducted in the context of this evaluation confirm the findings from the literature review, presented in Chapter 2. A quantitative and systematic assessment of the benefits to the poor of World Bank Group's entire portfolio is not possible. The Bank Group does not have in place the needed mechanisms and reporting tools to systematically collect data on the welfare effects of financial inclusion on the poor.

4.181 As the World Bank Group ramps up its support to client countries in their pursuit for the 2020 universal financial access goal, M&E has become more important than ever. In view of the rather modest effects of financial inclusion determined to date and the nature of the policy options that the World Bank Group is likely to consider going forward, a sequenced approach would provide a sound alternative. Such a sequenced approach would focus on clearly delineated and evaluable interventions and ensure a constant feedback loop into project design. Current efforts to develop an M&E framework are important steps which would have to be complemented by research efforts on the welfare effects on the poor. Once implemented, these would enable understanding whether and under which circumstances access to, for example, digital or mobile payment systems lead to inclusion and how such inclusion improved the lives of the poor.