5. Conclusion and Recommendations

Conclusions

5.1 **This evaluation reviewed the experience of the World Bank Group in supporting financial inclusion over a six-year period**. A key purposes of this evaluation is to inform the World Bank Group about their past experience in supporting financial inclusion at a time when it is designing a roadmap for its future work program that should help client countries achieve the Universal Financial Access Goal by 2020. The access goal has become of highest strategic relevance to the Bank Group as its President, Jim Yong Kim, committed his organization to this goal in 2013. The evaluation also informs the strategic discussion in and outside of the World Bank Group regarding the role of financial inclusion in the post-2015 development agenda and the ways the Bank Group can support it.

5.2 **The poor face enormous financial challenges and require access to financial services to meet essential needs.** Providing the poor with access to financial services, such as affordable transaction accounts, reliable payment systems for national or international remittances, and safe opportunities to deposit their funds, has the potential to benefit the poor. Recognizing the benefits for the poor, a microfinance industry grew over the last twenty year; its growth was even dramatic in the last three to five years when looking at assets of the MFIs.

5.3 **World Bank Group spent about 2-3 percent of its annual commitments on financial inclusion related projects**, based on the rationale that its support for financial inclusion would improve how markets work by overcoming limitations to market demand and supply so more and better financial services could be provided to the poor. With a growing realization that poor households and small firms need broader financial services than just credit, the Bank Group's inclusive finance support gradually embraced other services, such as payments and savings which are known to have higher potential to improve the lives of the poor. Along with this development an increase emphasis on upstream work to create the enabling environment in client countries.

Strategic Relevance

5.4 **Despite its global efforts to promote financial inclusion, the World Bank Group's contribution is rather small given the access gap – requiring the Bank Group to be strategic about what it supports**. Over the last six years (FY07-13) World Bank Group support to financial inclusion grew by about 20 percent – however, it was outpaced by the growth of the

MFI industry which grew by 80 percent during the same period. Still, the fact that IFC supported (either though investments or advisory services) MFIs that jointly make up 39 percent of the global micro loan volume exemplifies the Bank Group's leadership role.

5.5 But despite the World Bank Group's growth and relative reach, its support to financial inclusion is relatively small given the large number of unbanked ($2.5 billion globally) and the micro credit gap ($1.3 trillion). These contrasting figures call for a highly strategic allocation of the World Bank Group's scarce resources, devoting them where they are needed the most and where they can be expected to have the highest impact either in terms of creating new markets or scaling up existing markets.

5.6 **This evaluation found that, globally, the World Bank Group's allocation of its resources for advancing financial inclusion are strategically well aligned with countries' needs, that is, they reach primarily countries with low inclusion rates and where markets actually reach the poor.** In particular, World Bank lending, IFC advisory and AAA is strongly geared toward the lowest inclusion countries. But also IFC's investments are well in sync with client countries' needs. Given the self-sustaining nature of IFC investments, the presence in lowest and low inclusion countries is remarkable as these are typically service MFIs that rely on subsidies.

5.7 **Overindebtedness of microfinance clients is perceived as a risk facing the industry.** But, this evaluation found that, broadly speaking, World Bank Group strategic resources allocation to client countries reflects market saturation levels, proving markets at risk of overindebtedness rather with AAA work than with funding.

5.8 **At the country level, the World Bank Group support for financial inclusion was relevant in as much as it addressed a clear development priorities; however, consumer protection and financial literacy have thus far rarely been addressed.** The most frequently addressed constraints are lack of capacity and financing of financial institutions along with financial infrastructure (credit reporting) and regulations. Other important constraint, such as consumer protection and financial literacy have, however, been almost never addressed during the evaluation period, even though the Bank Group supports the Global Survey on Consumer Protection and Financial Literacy. Increased efforts in this space that the Bank Group undertook in FY14-15 point at am encouraging shift of focus.

5.9 **Although most projects identify beneficiaries, the Bank Group lacks appropriate definitions for what it calls "microenterprises" and often takes a shortcut when specifying the constraints of their beneficiary groups.** Across the portfolio, most projects identified target beneficiaries, such as microenterprises, albeit most lacked a definition. This is important as project may end up supporting larger companies under the heading of microfinance. Of those projects that mention women beneficiaries, a minority of projects

provide an in-depth description of this target population. However, financial inclusion projects fail to spell out the constraints specific to these beneficiaries.

5.10 **The Bank Group's public commitment to a specific measurable goal contributed to sustaining an international dialogue to reach consensus and advance the financial inclusion agenda.** However, despite its public commitment to the Universal Access Goal 2020, there appears to be little guidance on how to operationalize this goal. The Bank Group's current approach delineates principles of actions and key building blocks, but it remains to be seen how this goal will be translated into practice. Conceptually it is difficult to refute the argument that some sort of access to financial services is needed to enable inclusion; but whether access results in inclusion eventually depends on the quality, design and utility of this initial access. For example, the promotion of access through government-supported programs to digitalize cash payments via mobile phones or to roll out no-frill accounts for a large share of the population, may not necessarily lead to inclusion – and the current evidence base proofing this is thin. A focus of the international development community – including the World Bank Group – to drive up headline numbers of financial access hence bears the risk to invest in the "plumbing" with no water flowing through later on. Moreover, the current World Bank Group's strategy of focusing on 25 priority countries may have to be adjusted going forward as the excluded will increasingly be broadly distributed among many countries.

WORLD BANK GROUP SUPPORT FOR POLICY REFORM

5.11 **The Bank Group substantially contributes to global knowledge, standards and policy norms to expand financial inclusion. A key means the World Bank Group advances reform efforts is through international partnerships.** The Bank Group has been able to leverage its impact at the country level through global partnerships. Partnerships clearly extend the reach, resources, and influence mobilized to promote access to financial services by the poor and microenterprises. Organizations like the G20's GPFI, CGAP, AFI, and the Center for Financial Inclusion have a strong standing with relevant stakeholders and can provide opportunities for knowledge sharing, policy influence and piloting and disseminating innovative approaches. For example, the World Bank's exercised intellectual leadership in the area of global remittances through the Global Working Group on Remittances (GWGR), whose work has credited with reducing the cost of remittances, resulting in tens of billions of dollars of savings to migrant workers and their families. Sector leaders in the Bank and IFC make clear that partnerships play a large role in the Bank Group's goal of universal financial access and longer-term inclusion goals as well. At the 2015 Spring Meetings, President Kim stated that, to promote financial access, "The World Bank Group's role is to convene and energize a coalition of partners -- and also to step up our work."

5.12 **At the same time, these partnerships bear costs and risks:** they require resources and senior staff of the World Bank Group, can inhibit or dilute its own "branding," and may at times pursue goals or methods not squarely aligned the Bank Group's own strategy. Partnerships involve compromise and coordination. In absence of results frameworks or rigorous quality control, there can be reputational risks. Recognizing the necessity of such partnerships to achieve its objectives, the World Bank Group should nonetheless encourage its partner organizations to adopt high standards, especially with regard to their accountability and learning systems of the partner organizations. CGAP has only recently developed a clear results framework, and IEG did not come across results frameworks or independent reviews or evaluations of other partnership bodies, beyond a progress report. Given the different types of partnerships, advocating for such systems is likely to gain more traction in partnerships where the Bank Group is a major stakeholder, hosts the secretariat or contributes resources.

5.13 **With regard to the World Bank Group's country-level engagement on policy reform, IEG concludes that the World Bank Group plays a significant role, but that its approach to identify and tackle constraints to financial inclusion is neither sufficiently systematic nor comprehensive.** The World Bank Group played an important role in identifying major legal and oversight gaps and most project were also executed with good work quality. AAA work delivery an important and often successful contribution to the policy reform process, based on World Bank's own self rating scheme. IEG also concludes that the identification of legal and oversight gaps was not part of holistic assessment of the adequacy of the various elements of the financial inclusion framework; however, it also found that the World Bank Group did play a significant role in this space, in particular with regard to payments. In select countries, payment systems, remittances and financial infrastructure were covered through assessments at country level. The World Bank is also in the process of ramping up it support through advisory services and analytical support in the areas of consumer protection and financial literacy. This global program of 27 projects with completion dates FY15-18 will be important as the Bank Group is advancing its diagnostic work.

5.14 **Despite these efforts, the lack of a systematic diagnostic continues to be a concern in areas where prudential regulations would not be applied,** for example, stability and consumer protection issues related to Mobile Network Operated (MNO)-led mobile banking systems or savings and credit cooperatives which are of particular importance for the rural poor. In summary, the Bank Group does not yet have a mechanism within its financial inclusion tool kit to provide a comprehensive and systematic assessment of the various aspects of financial inclusion, although it is developing potentially important instruments such as the FISF and a new template for the financial inclusion module of FSAPs.

5.15 **IFC advisory interventions that foster the establishment of elements of an enabling environment for financial inclusion are very relevant and important, despite their more**

limited role compared to the World Bank. In view of the recent restructuring it is assumed that these interventions be executed by the Global Practices and no longer by IFC Advisory Services. IFC senior management envisages IFA Advisory Services mandates be linked to investment opportunities which for upstream interventions is difficult to argue. Going forward, it appears hence warranted that such mandates not be dropped but rather adequate funding mechanisms be found. At the same time, the integration of IFC's Access to Finance Advisory Services into the Finance & Market Global Practice and IFC Financial Inclusion Group also has the potential to strengthen synergies and overall effectiveness.

DID FINANCIAL INCLUSIONS INTERVENTIONS DELIVER SERVICES TO THE POOR?

5.16 **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 focused on financial inclusion. For IFC, the share of investments in MFIs represent a larger share of its portfolio, ten percent in numbers and four percent in volume (in dollar terms).

5.17 **Overall, the World Bank lending activity heavily focuses 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. A recurring challenge in World Bank lending projects is excessive complexity, often manifested by too many components and subcomponents. With regard to the sustainability of World Bank financial inclusion interventions, even though technological progress may eventually allow MFIs to reach the lower end of the retail market, some level of subsidization is likely to remain going forward, in particular in the areas of rural financial services and mass roll-outs of no-frill accounts. The latter may generate savings to governments where they are used as vehicles for public payments schemes, but will nonetheless require up front subsidy. To date, the World Bank has not reconciled its approach to subsidization nor adopted a uniform philosophy across networks (now global practices) and activities.

5.18 **IFC's investments in financial inclusion are small on average, but they occur in markets where they matter; that is, they reach countries that have high exclusion rates.** IFC typically support 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.

5.19 **IFC work quality was found to be high** – and is hence not to blame 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. Important for the poor, IFC-supported MFIs (that reported data systemically on savers and borrowers) 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 was found to have more positive effects for the poor than credit. Given that many IFC-supported MFIs are reluctant to expand into the rural space, in particular in Africa, innovative business models, products and technologies are needed to expand into the rural space, as IFC scales up its MFIs business and tries to lower transaction costs.

5.20 **It will be important for such an approach 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. The current practice of labelling investment as "in support of microenterprises" causes confusion and may raise undue expectations about the IFC's reach and the number of microenterprises it is helping.

5.21 **IFC's experience in supporting MFIs suggests the value in supporting *new* clients and investing in small and relative pioneering projects that take longer to turn profitable, but have a tremendous development impact.** IFC's greenfields are good example of partnering with new clients that resulted in projects with tremendous PSD impact. At the same time, these greenfields illustrate that supporting projects that do not necessarily provide quick profitability may still be worthwhile – noting the deviation between business success and development impact. They also underscore the necessity for IFC to support relatively small projects, some of which can be quite transformational in that they establish industry leaders in the provision of financial services.

5.22 **IFC advisory projects build capacity with local MFIs, help client MFIs develop product and services, and improve risk management processes.** Measured by their development outcome rating, about two third (64 percent) of these projects are successful, corresponding roughly 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 outcomes achievement where only 62 percent of projects are successful, ten 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.

5.23 **With regard to working as "one World Bank Group,"** this evaluation found that 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. Country case studies, while documenting some instances of collaborative synergies, further indicate the existence of such gaps, as well as simple ignorance on the part of each institution (or even practice) about what the others are doing.

5.24 **The qualitative beneficiary assessment conducted in the context of this evaluation confirmed the findings from the broader literature, that is, that the expectations of microcredit pulling millions out of poverty have not been fulfilled;** yet credit can help the poor manage their day-to-day struggle and provides choices and options that did not exist before. Even though microenterprises visited during missions barely grew, these MFI clients still found the funds obtained through credit useful in paying school fees or paying for emergencies. Findings, as well as IEGs literature review, points at the higher potential of non-credit financial services, that is, payments, savings and insurance. A more systematic and quantitative assessment of the benefits to the poor is not possible as the World Bank Group does not have in place a mechanism to systematically collect data on the welfare effects of financial inclusion on the poor. The Bank Group is in the process of developing M&E concepts to track direct outcomes and impacts of its financial inclusion interventions, in particular under the Financial Inclusion Support Framework. These steps are important and need to be complemented by research efforts that study the actual welfare effects by the poor.

IMPLICATIONS FOR THE WORLD BANK GROUP'S FINANCIAL INCLUSION STRATEGY

5.25 **The Universal Access Goal 2020 is central to the Bank Group's strategy in financial inclusion** – focusing attention on providing financial access through transaction accounts. Given the potential of non-credit financial services, payment system may indeed be a good entry point for the poor to get connected to the formal financial system. The Bank Group's public commitment to a specific, measurable goal contributed to sustaining and expanding an international dialogue to reach consensus and advance the financial inclusion agenda. However, despite its public commitment to the Universal Access Goal 2020, there appears to be only limited guidance on how to operationalize this goal. The Bank Group's current approach delineates principles of actions and key building blocks, but it remains to be seen how this goal will be translated into practice.

5.26 **Conceptually, the link between access and inclusion (active use) of financial services is clear, but empirically, nonutilization rates in some schemes raise questions. , A lot depends on the quality, design and utility of this initial access.** For example, the promotion of access through government-supported programs to digitalize cash payments via mobile phones or to roll out no-frill accounts for a large share of the population, may not necessarily lead to inclusion. High dormancy rates and low usage of newly opened accounts

offer additional caution, in particular in countries that implemented mass roll-out programs, but also in low income and lower middle income countries in general. Instead of focusing on "headcount numbers" the relevant goal may instead be providing services to everyone with a productive and beneficial use of them.

5.27 **Given the uncertainties of whether the poor benefit and under which circumstances they benefit the most, and whether access to financial services leads to inclusion, adopting a sequenced approach to program implementation provides a sound way forward.** The current state of knowledge indicates that financial inclusion does not transform the lives of the poor, at least for credit, and effects of other financial services appears modest overall as well. The proposed sequenced approach could focus on clearly delineated and evaluable interventions and incorporate lessons from past and ongoing interventions into the design of new interventions. Having a well-established M&E system in place is of particular importance, as the World Bank Group experiments with new ways to achieve the envisaged universal access goal such as roll-outs of no-frill accounts or digitalizing government-to-people (G2P) payments. The World Bank Group will need to closely monitor outcomes to ensure that financial services are rolled out to the people who can make good use of them – and that these services make their lives better. In this context, the increased efforts of the World Bank to launch advisory services and AAA work that is geared towards better understanding reform measures or which type of account best facilities the access to and usage of a range of services are important steps.

5.28 **Lowering transaction costs – not only initiation costs -- of financial services through innovation is important in this context**. Delivery models such as mobile or correspondent banking, and agent and "branchless" banking and innovations in underlying technology platforms fall in this area, as well as initiatives such as India's use of the universal ID as a satisfaction of the know-your-customer requirement. A potential way forward appears to lie in advancing these innovations, in partnerships with other agencies, through the suggested "sequenced approach" where the benefits for the poor are continuously monitored.

5.29 **The potential of traditional financial sector deepening to lift people out of poverty should not be overlooked**. Financial sector deepening – while not directly providing the poor with financial services – strengthens the financial sector so that financial intermediation occurs in an effective and efficient manner. Efficient intermediation helps the private sector prosper, allowing SMEs and larger companies to grow and expand employment and opportunity, including for the poor.

5.30 **These findings suggest that clarifying the Bank Group's approach to financial inclusion may be warranted**. The current World Bank Group's strategy of focusing on 25 priority countries may also have to be adjusted going forward as the remaining excluded will increasingly be broadly distributed among many countries. The Bank Group will also have to

decide what it will do to close the remaining access gap in 2020. Recent extrapolations conclude that, taking population growth into consideration, by 2020 just over one billion people may still be unbanked. Will the World Bank Group's support boost access to such an extent that these one billion will be reached? Will it be more costly to reach this "last billion" of unbanked? Financial inclusion – if pushed to the very low retail end – is likely to require subsidization, as indicated by recent research. Moreover, closing the access gap of the "last billion" is likely to be increasingly difficult as the more accessible citizens have been reached. Striking a balance between the costs and benefits of providing universal access and weighing these against the cost and benefits of other competing priorities will be essential as the World Bank Group provides support to its client countries in achieving the Universal Access Goal by 2020 and further financial inclusion goals beyond this.

Recommendations

5.31 The following recommendations are intended to contribute to the design of the Bank Group's roadmap to support the Universal Access Goal 2020.

Recommendation 1: Clarify Approach – The World Bank Group should adopt an evidence-based and comprehensive approach to financial inclusion that aims at enabling access to a range of financial services with benefits for the poor in a sustainable manner. This should be reflected both in broader strategies (such as that for the F&M GP) and in its detailed business plan. As part of this approach, the conditions and business models under which subsidization is a useful tool to achieve sustainable services should be specified and consistent, coherent guidance should be provided to staff on when and how to apply subsidy to financial services versus when a focus on markets can suffice. Also critical to this work is how the Bank Group systematically finds and replicates innovations that lower transactions costs and improve financial inclusion (Recommendation 2).

Recommendation 2: Find and Replicate Innovative Delivery Models of Financial Services to the Poor through Sequenced and Evidence-Based Approaches – To deliver sustainable, low-cost services, the Bank Group and its partners should research, pilot, and scale up innovative business models and approaches to reach underserved (especially rural) clients. Such an approach would focus on delineated and evaluable interventions and ensure a feedback loop in the design of new projects. A key part of this is to ensure that the Bank Group effectively applies its research and evaluative resources to better understand the extent to which its interventions actually support poor households and microenterprises (as well as other excluded groups), and how best to adapt its interventions to different country conditions.

Recommendation 3: Strengthen Partnerships – Recognizing the value of partnerships as a central instrument of its financial inclusion work, the Bank Group should strengthen its partnerships by advocating clear strategies, results frameworks and M&E arrangements for partnership arrangements it has joined or will decide to join.

Recommendation 4: Implement New Tools in Country-Based Diagnostics and Strategies – In countries with a substantial current or planned engagement in financial inclusion, the Bank Group should implement an appropriate, holistic, and systematic diagnostic tool and, based on such diagnostics, develop country-level strategies for financial inclusion to guide its work. Special attention is appropriate for frontier customers and market segments in countries where there is already substantial engagement. These could inform the Systematic Country Diagnostics and Country Partnership Frameworks. Connected to this, M&E systems should take account of results frameworks established in country financial inclusion strategies, and take a practical and cost-effective approach to improving measures of beneficiary impact.