Overview

Financial Inclusion – A Foothold on the Ladder toward Prosperity?

Highlights

Access to financial services has long been believed to lift people out of poverty by allowing them to seize economic opportunities and increase their welfare. Despite rapid progress of 700 million people gaining access to formal financial services since 2011, 2 billion remain excluded. Financial inclusion -- access by poor families and microenterprises to financial services -- has been an objective of the World Bank Group for a long time, reaffirmed in 2013 by President Jim Kim's commitment to the Universal Access Goal by 2020 (UFA).

This evaluation examines the relevance and effectiveness of seven years (FY07-13) of World Bank Group support to financial inclusion and its impact on the poor. It found that the World Bank Group contributed significantly to progress in financial inclusion globally and in client countries. It has "reached" a substantial share of the microfinance industry. Its support is strategically aligned with countries' needs, focusing primarily on countries with low inclusion rates and addressing development priorities. The Bank Group has also contributed to the sustainability of microfinance services.

Yet the Bank Group's approach to identify and tackle constraints to financial inclusion at the country level is not sufficiently comprehensive. This is of particular concern for areas that are not subject to prudential regulations, like mobile money and rural savings and credit cooperatives. Even though the Bank Group was able to leverage its impact through international partnerships, these bear costs and risks and often lack results frameworks.

But most importantly, the commitment to the UFA and the resulting "push" for enabling access to financial services through transaction accounts may create a bias for driving up sheer access numbers. This may be problematic for several reasons: (i) access does not necessarily lead to *inclusion*, given high dormancy rates of newly created accounts; (ii) the link between access to finance and poverty alleviation is neither certain nor well understood, given the evidence that, in spite of modest benefits, the promise of microfinance pulling millions out of poverty has not been fulfilled; and (iii) current trends suggest one billion people may still lack access by 2020. These remaining financially excluded will increasingly be broadly distributed across many countries and predominantly in rural areas. Providing access to them is likely to require subsidization. Striking a balance between the costs and benefits of universal inclusion and weighing these against the cost and benefits of other competing development priorities will be essential. IEG hence recommends that the World Bank Group:

- **Clarify the World Bank Group's approach** on financial inclusion by making it evidence-based and comprehensive, focused on enabling access to a range of financial services with benefits for the poor in a sustainable manner and specifying when and how to use subsidies.
- **Find and replicate innovative delivery models** through a sequenced and evidence-based approach to innovation.
- **Strengthen partnerships** by advocating clear strategies, results frameworks, and M&E arrangements.
- **Implement new tools in country-level diagnostics** and strategy to guide financial inclusion work.

Financial Inclusion and the Fight against Poverty

The poor face immense financial challenges. They are more likely to send family members to far-away cities or even abroad in the hope that they would send money home. The income of the poor is not only lower, but also more volatile, as they rely on a range of often unpredictable jobs or on weather-dependent agriculture. Transforming irregular income flows into a dependable resource to meet daily needs represents a crucial challenge for the poor; and so do the funding needs if their homes require repair, a relative dies, or a breadwinner falls ill. Savings, credit, insurance, and remittances can each help smooth the volatile incomes of poor people, providing a margin of safety when income drops or expenses rise, or provide the needed funds for children's education or health care. At the same time, probably the best known argument for microfinance has been the expectation that credit could lift people out of poverty by providing microentrepreneurs with funds they need to seize growth opportunities. All these arguments have hitherto formed the bases of the "case for financial inclusion."

Yet the poor are largely excluded from financial services, despite recent progress. Although the number of unbanked dropped from 2.5 billion in 2011 to 2.0 billion in 2014, an estimated 46 percent of adults in developing countries are unbanked, compared to only 6 percent in developed countries. The poor are hit the hardest: of those living on $2 per day, 77 percent lack a bank account.

Recognizing the possibilities for the poor, a microfinance industry grew over the last 20 years, culminating in a dramatic growth spurt in the last 3–5 years. In some countries, growth has reached saturation level so that, according to some estimates, about 6 percent of countries are at risk of overindebtedness and about 13 percent warrant a detailed analysis of market stability factors – including evaluation of levels of overindebtedness. Yet in spite of rapid progress and a record number of people reached by a variety of formal financial services, there remains a substantial credit gap and high levels of exclusion.

The Andhra Pradesh crisis is one example where overindebtedness led to ripple effects through the microfinancial community. In late 2010, Andhra Pradesh state authorities reacted to claimed abuses and breakneck growth of the microfinance industry, including overlending, inadequate consumer protection, and abusive collection practices. State politicians, who favored a state-led alternative that offered subsidized financing to the poor, responded with legislation that was so restrictive that no microfinance institution (MFI) could operate. The crisis deeply shocked the microfinance industry and India's central bank – stimulating both to remedial action. The result was a better-regulated (and self-regulated) commercial microfinance sector with a code of conduct, monitoring, and a high-quality national credit information system. Commercial microfinance resumed substantial growth everywhere except the state where the crisis began.

With the growth of the microfinance industry, the evidence base on how financial inclusion affects the poor also grew. To reflect the current status of the academic knowledge, IEG commissioned an independent literature

review covering more than 140 articles and publications, with a focus on the most recent research. The evidence indicates that the expectations of microcredit pulling millions out of poverty have not been fulfilled. The overall picture is one of mixed but modestly positive (not transformative) effects of microcredit on the poor. Credit – and along with it other financial services such as payments, savings, and insurance – can, however, help the poor manage their day-to-day struggle. These financial services provide choices and options that did not exist before, in particular with regard to education, health, and buffering income shocks. In fact, benefits from non-credit services appear to have a higher potential than micro credit alone, which may make them more suitable entry points for the poor into formal financial services.

IEG's review also covered all 3ie listed impact evaluations and systematic reviews on financial inclusion. It indicated that microcredit is – overall – fairly well studied and savings more modestly studied; payments, insurance, financial literacy, and consumer protection represent major gaps in rigorous understanding. However, even with regard to credit, the long-term impact has rarely been studied, with most studies focused on the short term. Nor do rigorous studies shed much light on macroeconomic or fiscal impact of interventions, the role (or potential role) of government, intergenerational effects, or enablers of microenterprise (and household) success.

The World Bank Group has spent about two to three percent of its annual commitments on financial inclusion-related projects, based on the rationale that its support for financial inclusion would improve markets by overcoming limitations to demand and supply so more and better financial services could be provided to the poor.

IEG reviewed the experience of the World Bank Group's support to financial inclusion over a six-year period, FY07-13. The large majority (70 percent) of the evaluated interventions are relatively young, that is, approved FY06-13. Relying mainly on this set of rather recent interventions, IEG also factors in ongoing trends and developments to ensure relevance and timeliness of its conclusions and recommendations.

Although this evaluation is designed to inform the Board of Executive Directors of the effectiveness of these efforts, one of its key purposes is to inform the World Bank Group management on its experience in supporting financial inclusion at a time when the Bank Group is designing the roadmap for its future work helping client countries achieve the Universal Financial Access Goal by 2020 and deepen financial inclusion. The access goal had become of the highest strategic relevance to the Bank Group as President Jim Yong Kim committed the organization to this goal in 2013 and is closely monitoring progress.

IEG has also tried to determine the extent to which the current campaign for the 2020 Universal Financial Access Goal is grounded on evidence of actual benefits to the poor – which is important, as the latest research points to more modest benefits for the poor from financial services than originally hoped for. The report also assesses if the Bank Group has been responsive to emerging evidence in

designing its operational financial inclusion agenda.

The evaluation is equally meant to inform the strategic discussion in and outside of the World Bank Group about the role of financial inclusion in the post-2015 development agenda and the ways the Bank Group can support it.

The World Bank Group's Operational Response to the challenge of Financial Inclusion

Operationally, the World Bank Group has deployed a wide range of services and products, through the World Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA): 884 inclusive finance projects committed between FY07 and FY13 (an average of 125 projects per year), with a total commitment value of $9 billion (an average of $1.3 billion per year).

Throughout the evaluation period, financial inclusion projects accounted for approximately 3 percent of total World Bank Group commitments. IFC accounted for the highest share of financial inclusion projects, both by number of projects (65 percent) and commitment value (49 percent). The World Bank's lending accounts for 32 percent of total Bank Group projects and 45 percent of commitments, because of its larger average project size. MIGA's relative share is only three percent of projects and 6 percent of value (measured by gross exposure).

Over the last six years (FY07–13) World Bank Group support to financial inclusion grew by about 20 percent. During FY09 and FY10, World Bank Group's commitments to financial inclusion exhibited a marked increase, likely in response to the global economic crisis.

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 came an increased emphasis on upstream work in client countries to create a stronger enabling environment for financial inclusion.

Strategic Relevance

The growth in its commitments toward financial inclusion indicates the Bank Group's intent to respond to the global challenge of financial inclusion. To illustrate the Bank Group's reach, IFC supported – either though investments or advisory services – MFIs that jointly make up 39 percent of the global microlending volume. Supporting an MFI through an investment or advice may not necessarily indicate that IFC was responsible for the entire loan volume that this MFI subsequently issues, as IFC typically invests along with several others. A "reach" of 39 percent still exemplifies IFC's leadership role.

Despite the World Bank Group's growth and relative reach, its support to financial inclusion is small, given the large number of unbanked (2.0billion globally) and the size of the microenterprise credit gap, according to IFC's calculation (over $1 trillion). This calls for a strategic allocation of the World Bank Group's resources, devoting its scarce resources where they are needed the most and where they can

have the highest impact, either in terms of creating new markets or scaling up existing markets.

IEG found that, globally, the World Bank Group's allocation of its resources devoted to advancing financial inclusion are strategically well aligned with countries' needs; that is, they primarily reach countries with low inclusion rates and where the countries' microcredit markets actually reach the poor; and they are relevant as they address country development priorities in the given institutional and policy context

In particular, World Bank lending, IFC advisory work, and World Bank analytical and advisory activities (AAA) are strongly geared toward the countries with lowest inclusion. IFC's investments are also well synchronized with countries' needs. Given the self-sustaining potential of IFC investments, IFC's presence in the lowest and low-inclusion countries is remarkable, as these are typically served by MFIs that rely on donations or subsidies.

The Bank Group's resource allocation was not only in sync with country exclusion levels, but it also reflected patterns of overindebtedness. Overindebtedness of microfinance clients is one of the many risks facing the industry these days. IEG found that, broadly speaking, the World Bank Group's strategic resource allocation to client countries reflects market saturation levels. In other words, markets at risk of overindebtedness were provided with advisory and AAA work rather than with funding. World Bank Group funding of microfinance operations in countries that are saturated or even at risk of overindebtedness was significantly lower than volumes provided by the general market. This is a good thing, as it indicates that the World Bank Group refrains from further "fueling" market saturation and instead focuses on building capacity in these markets to deal with the risks of the microfinance markets, including with issues of overindebtedness. Such an approach is likely to limit the "collateral damage" of overindebtedness as a result of microcredit. Given the evidence that microcredit has not fulfilled expectations of lifting people out of poverty, it seems vital to limit the potential of poor people becoming overindebted.

At the country level, World Bank Group support for financial inclusion was relevant in the sense that it addressed a clear development priority. Yet well-functioning markets require well-informed consumers with accurate information about services and their costs. Within the evaluation period FY07-13 the Bank Group has rarely pursued consumer protection and financial literacy in its country engagements even though the Bank Group supports the Global Survey on Consumer Protection and Financial Literacy in compiling data from over 100 central banks and bank supervisors. Increased efforts in this space that the Bank Group undertook in FY14-15 point at an encouraging new emphasis. The danger of overindebtedness exemplifies why consumer protection and financial literacy matter. Bank group interventions most frequently address the constraints of lack of capacity and financing of financial intermediary institutions, as well as weakness in financial infrastructure (for example, credit reporting) and regulation.

Across the portfolio, most projects identified target beneficiaries, such as microenterprises,

but most lacked a definition of what the Bank Group considers a microenterprise. This is important, as projects may end up supporting larger companies and loans with financing intended for microfinance.

Of those projects that mention women beneficiaries, a minority provides an in-depth description of this target population. More broadly, financial inclusion projects often fail to spell out the constraints specific to their intended beneficiaries.

World Bank Group Support through Partnerships

An important part of the World Bank Group's approach to financial inclusion lies in its contribution to global knowledge, standards and policy norms in ways that benefit the poor. World Bank Group supports policy reform through both international partnerships as well as through its country-level engagement to create adequate regulatory frameworks.

With regard to partnerships, the Bank Group has been able to leverage its impact at the country and global level through global partnerships. Partnerships clearly extend reach, resources, and influence to promote access to financial services by the poor and microenterprises. Organizations like the Consultative Group to Assist the Poorest, the Global Partnership for Financial Inclusion, the Center for Financial Inclusion, and the Alliance 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. Partnerships play a large role in the Bank Group's goal of universal financial access and longer-term inclusion goals as well.

The World Bank Group has also been able to have a strong impact on global standard-setting bodies through its partnerships with CGAP and the GPFI (through the Regulations and Standard Setting Bodies subgroup) and by engaging with major global standard-setting bodies. Similarly, the World Bank's leadership exercised in the policy setting arena on global remittances. Its efforts through the Global Working Group on Remittances (GWGR) have been credited with reducing the cost of remittances, resulting in tens of billions of dollars of savings to migrant workers and their families.

At the same time, these partnerships bear risks: they require resources and senior staff, can inhibit or dilute the Bank Group's own "branding," and may at times pursue goals or methods not squarely aligned with the Bank Group's own strategy. Partnerships involve compromise and coordination. Going forward it will be important for the Bank Group to encourage its partner organizations to adopt high standards, especially with regard to accountability and learning systems. In this context, Bank Group staff report 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 with financial resources.

World Bank Group Support for Policy Reform through Country-Level Support

For financial intermediaries to thrive and better serve the needs of the poor, an enabling environment has to be in place at the country

level. This includes an adequate framework of proportional regulation and effective supervision, comprehensive and reliable credit information, procedures for account openings, sound consumer protection practices, and adequate policies for branchless or mobile banking.

To assist countries in policy reforms and in creating an enabling environment, the World Bank Group has implemented 232 interventions during FY07-FY13, about one-fourth of the total financial inclusion interventions. Such interventions are provided by both the World Bank and IFC, with two-thirds of the total number of interventions delivered by the former.

The World Bank upstream interventions (that is, policy, regulatory and institution-building) were delivered through lending instruments and AAA. IFC upstream interventions were delivered through its advisory services. These advisory services interventions are usually delivered in the context of related investment interventions as a way to establish or strengthen a regulatory framework.

On balance, World Bank Group upstream interventions were broadly effective. In most areas of upstream involvement, the objectives were fully achieved in more than half of the cases. For both the World Bank and IFC, interventions focused on oversight, regulations, and financial infrastructure obtained the best ratings. Financial literacy interventions for the World Bank and financial inclusion strategy interventions for IFC advisory services are the two areas of involvement where effectiveness has most substantially faltered.

AAA work delivers an important contribution to reforms. This support focuses mainly on upstream issues (80 percent) and almost doubled from FY10 to FY13, compared to FY07-09. The share of AAA work that focused on noncredit issues -- that is, savings, payments, and insurance -- increased as well, amounting to 41 percent recently. This is an important response to the emerging evidence that noncredit financial services are equally – if not more – beneficial for the poor.

The single most important field of AAA activities is informing government policy (25 percent), including providing strategic advice, followed by stimulating public debate and raising awareness (18 percent). The World Bank's self-rating scheme suggests far greater success in laying the groundwork for a new World Bank loan than in shifting other donors' policies.

In some countries, the lack of traction in policy dialogue at the strategic level may have contributed to the absence of a coherent national strategy for financial inclusion. The case studies indicate a wide range of variability in the level of government commitment and strategic coherence.

Despite the World Bank Group's significant role in policy reform and its success, its approach to identifying legal and oversight gaps was not part of a holistic assessment of the adequacy of the various elements of the financial inclusion framework.

In a growing number of countries, payment systems, remittances and financial infrastructure were covered by structured surveys or tool-based diagnostics; in other

areas, stronger analytical support is under way or planned, such as in the area of consumer protection and financial literacy. At the same time, there is no dedicated tool in the World Bank Group financial inclusion tool kit designed to provide a comprehensive and systematic assessment of the various aspects of financial inclusion.

This lack of a systematic diagnostic is particularly of 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.

The World Bank Group is developing potentially important instruments such as the Financial Inclusion Support Framework and a new template for the financial inclusion module of Financial Sector Advisory Programs (FSAPs). There is a strong potential for complementarity by using a combination of the Bank's lending and AAA instruments and IFC's investment and advisory capacity, yet in many countries the benefits of strategic coordination and complementarity go unrealized. Therefore it would seem appropriate that the current increased attention to financial inclusion is used as an opportunity to continue developing – and proceed to implementing – a holistic and systematic diagnostic tool for financial inclusion.

IFC advisory interventions that foster elements of an enabling environment for financial inclusion are very relevant and important, despite their small scale. Following the recent Bank Group restructuring, some staff and responsibility have been transferred from IFC AS to the Global Practice on Finance and Markets. IFC Senior Management envisages future IFC AS mandates be linked to investment opportunities, a characteristic most upstream AS interventions do not fulfill. The intention creates risks of curtailing or altogether stopping this type of advisory support. At the same time, the integration of IFC's Access to Finance Advisory Services into the Global Practice and IFC Financial Inclusion Group also has the potential to strengthen synergies and overall effectiveness.

Did Financial Inclusion Interventions Deliver the Expected Financial Services to the Poor?

The World Bank Group "downstream support," that is, support that targets financial intermediaries in delivery of services to the poor, encompasses a range of efforts: (i) World Bank lending, often including lines of credit; (ii) IFC's direct investments in or advisory services to MFIs; and (iii) MIGA's guarantees.

The World Bank's downstream support to financial inclusion represents 2 percent of its entire lending portfolio in volume and 6 percent in terms of number of projects. For IFC, the share of investments in MFIs represents a larger segment of its portfolio, 10 percent in number of projects and 4 percent in volume. For MIGA, guarantees in support of MFIs amount to 4 percent of its gross exposure.

Overall, World Bank lending activity heavily focuses on the countries with the lowest levels of financial inclusion. Its work is mainly on credit, even though a significant share of its downstream technical assistance relates to

payments, savings, and insurance. This is a promising trend, given that noncredit services are increasingly proving to have equal – if not higher – benefits for the poor.

A challenge in World Bank lending projects has been excessive complexity, often manifested by too many components and subcomponents. The Global Practice has internalized this lesson, however, during the last few years and design complexity has improved. For M&E the trend is less pronounced, for although the design of M&E systems improved, the usage rate of indicators generated is low.

An important issue in downstream work is subsidies, given the increasing difficulties of MFIs in recovering costs the more they approach the very low retail end of the market. Technological progress and innovative business models, such as agent banking or mobile money, may eventually allow MFIs (or other financial service providers) to reach the lower end of the retail market. Still, some level of subsidization may be unavoidable also going forward, in particular in the area of rural microfinance, for example through SHGs, or when it comes to mass roll-outs of no-frill accounts or digitalizing government-to-people (G2P) or people-to-people (P2P) transfers. Although digitalizing cash transfers may in fact save costs under the right circumstances, for example, reducing 'leakage" and making delivery of public benefits more efficient, it cannot be assumed universally. In particular, as the more proximate and easy to reach gain access, those who remain unbanked in the future are likely to be spread over a large number of countries, making mass roll-outs increasingly difficult. Moreover, the unbanked of the future will increasingly be the rural poor. In these rural areas, digitalizing cash transfers and implementing mass roll-outs are likely to face more fundamental challenges, for example lack of network coverage in case of digitizing of cash transfers or creating a sufficiently dense agent network to cash out these transfers.

Although the World Bank Group has tended to discourage subsidies of interest rates, it has traditionally accepted subsidized interest rates in financial intermediation projects for poverty alleviation when they are "transparent, targeted and capped," explicitly budgeted, fiscally sustainable, equitably distributed, and economically justified. Governments may choose to subsidize credit to overcome market failures that lead consumers to demand or providers to supply suboptimum amounts of financial services.

In such cases, the question of how to structure the subsidy arises. Up-front subsidies to address institutional costs of establishing or extending services are generally regarded as preferable to ongoing operational subsidies, both because of reduced price distortion and potentially lower risk of diversion or capture.

However, a more fundamental question surrounds the efficiency of subsidizing a single good, such as credit, versus an equivalent cash transfer to poor households to spend as they choose. What is clear from the World Bank Group's portfolio is that, in practice, there is no consistent philosophy, with significant variations across projects and organizational units and practices.

Very few of the World Bank's downstream projects were evaluated during the period: 14 downstream technical assistance projects and 6

downstream finance projects. Of these, development outcomes of financial inclusion projects corresponding to the portfolio overall, that is, about 70-75 percent, were rated successful. 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.

IFC's investments in financial inclusion are small, but they occur in markets where they matter; that is, they often reach countries that have high exclusion rates. IFC typically supports fully licensed banks, but also non-bank-MFIs.

When looking at development outcomes, financial inclusion investments perform slightly below average: 63 percent were rated satisfactory or better compared to a success rate of 67 percent across the entire IFC investment portfolio.

IFC's investment in MFIs often struggle to achieve adequate business performance, but many also exhibit remarkable private sector development effects and good economic sustainability. The root causes for the low profitability of IFC's MFI investments include higher start-up costs and slower loan growth. IFC work quality was found to be high – and is hence is not a factor behind the low business success.

In the countries where IFC operates, microloans represent about 5-10 percent of the loan portfolios of those banks that IFC supports with investments where microenterprises or poor households are a declared beneficiary. The majority of IFC-supported banks (90 percent) have mixed portfolios; the rest of the portfolios are up to 10 times larger and go to clients taking out significantly larger loans, including small and medium-size enterprises (SMEs). This indicates that IFC plays a role in the microsegment, but only a fraction of its support caters to the very small retail segment of the microcredit market. 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. But it argues for better segmentation and targeting of the micro and small and medium-size enterprise market as well as more accurate reporting on the reach to the very small retail segment of the microcredit market.

Within the microloan segment, IFC-supported banks issue loans slightly larger than their peers, indicating that they do not necessarily cater to the very lowest end of the microcredit market. The very low retail end of the market would, in many countries, be the rural poor that MFIs typically find hard to supply. An exception here are IFC-supported MFIs in South Asia that issue loans with a consistently small average value.

Monitoring and transparently reporting the extent to which IFC's loans reach the poor and microenterprises is important going forward. Based on IFC's current approach it is somewhat difficult to determine the share of the microloans reaching the poor and/or microenterprises as IFC's reporting tools do not take into consideration the country-specific income situations and granularity of the economies.

Currently IFC uses the loans size as a proxy for assessing who its support reaches. Accordingly IFC calls loans smaller than $10,000 "micro" loans with which they aspire to support "micro enterprises". IFC defines microenterprises as having less than $100,000 in assets and/or annual sales and as having fewer than 10 employees.

In reality, there is no comprehensive data 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 amount to $152,000 and $530,000, respectively – both considerably above the set threshold of up to $100,000. Similarly, the median and average total assets amount to $131,000 and $ 352,000, respectively. In this sample, IFC supported microenterprises appear to meet the criteria only with regard to the number of employees, that is, 6 employees compared with the threshold of 10. These data are consistent with IEG's findings that microloans represent only a small share (about 5-10 percent) of the loan portfolios of those banks that IFC supports.

In addition, the thresholds themselves raise questions as they are set without reference to local conditions and income levels. What is adequate for Turkey, is way too high a threshold for "micro" in, for example, Tanzania. The Microfinance Information Exchange (MIX) market can serve as an indicator for what is a normal value of a microloan: MIX reporting MFIs typically issue microloans averaging about 1.6 times the gross national income 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 about $860 in Tanzania.

The current practice of labeling investment as "in support of microenterprises" hence causes confusion and may raise undue expectations the number of microenterprises it is helping. Importantly for poor clients of microfinancial services, IFC-supported MFIs that reported data systemically on savers and borrowers managed to increase resource mobilization by increasing the number of savers among their clients – more so than their peers. This is a potentially promising development, given that the literature indicates that savings have more positive effects for the poor than credit. It is promising that an increasing share of the entire World Bank Group's interventions go beyond credit — that is, address issues (or institutions) related to payments, savings and insurance.

IFC's experience with MFIs illustrates the value of supporting *new* clients and investing in small and relatively pioneering projects that take longer to turn profitable, but that have a significant development impact. Some of IFC's greenfield investments in Africa are a good example of partnering with new clients and resulted in projects with significant private sector development impact. At the same time,

these projects illustrate that supporting projects that do not necessarily provide quick profitability may still be worthwhile. 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.

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, 64 percent of these projects are successful, corresponding roughly to the remaining access to finance 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.

Mobile channels 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. Uptake of such services, however, has been uneven across the globe, largely concentrated in Eastern Africa. Of the 54 percent of adults in developing countries who own 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 a mobile money account only. The one regional exception is Sub-Saharan Africa, where mobile money accounts drove the growth of financial inclusion during 2011-14. Current challenges include interoperability and inadequate regulatory frameworks, which affects as many as 2 billion adults.

The World Bank Group has played a role as thought leader in setting the global agenda on digital payments for financial inclusion, along with a small group of international policy makers. At the country level, however, outside of Sub-Saharan Africa, the Bank Group has played less of a leadership role facilitating wider use of mobile money for broad-based financial inclusion, with the exception of a few countries.

With regard to working as "one World Bank Group," IEG found that, based on the small number of countries with financial inclusion strategies in place during the portfolio period, there was potential for gaps, lack of complementarity and sequencing, and use of ad hoc work. While instances of coordination showed the great potential for synergy, country case studies also indicate the existence of frequent gaps, as well as lack of knowledge on the part of each institution (or even each Global Practice) about what others are doing.

Within the newly adopted Financial Inclusion Support Framework, however, the World Bank and IFC have increasingly worked together. The two institutions have developed joint financial inclusion approaches and action plans for the top 25 priority countries that are at the strategic focus of the Bank Group at present.

Implications for the World Bank Group's Financial Inclusion Strategy

The Universal Access Goal 2020 is central to the Bank Group's strategy in financial inclusion. Accordingly, the World Bank Group's approach – at least since its public commitment to this goal in 2013 – centers on financial *access* through transaction accounts.

The public commitment to a measurable and tangible access goal has contributed to sustaining an international dialogue and a multi-partner campaign, and fostered consensus to advance the financial inclusion agenda. However, despite its public commitment to the Universal Access Goal, questions remain how the Bank Group will operationalize this goal. The Bank Group's current approach, characterized by the Financial Inclusion Support Framework, delineates principles of actions and key building blocks, but it remains to be seen how this goal will be translated into practice.

Conceptually, the link between access and inclusion (active use) of financial services is clear, but empirically, nonutilization rates in some schemes raise questions.

Whether access *results* in inclusion 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 usage of a wider range of financial services.

Massive rollouts like India's *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). The latest Findex data equally point at low usage of accounts, despite strong growth in access to them. Globally, 460 million people have dormant accounts, that is, they have not made a single transaction during the last year. Dormancy and low usage are particularly strong in low income and lower middle income countries. Hence, the assumption that access leads to inclusion cannot be taken for granted. The linkage has to be understood in detail and lessons from past experiences should be integrated into the design of new interventions.

In this context, the increased efforts of the World Bank to launch advisory services, research 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. The relevant goal may indeed be providing services to everyone with a productive and beneficial use of them, instead of focusing on "headline numbers".

But do the poor actually benefit? The qualitative beneficiary assessments 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. It provides choices and options that did not exist before. Even though microenterprises barely grew, these MFI clients still found the funds obtained through credit useful in paying school fees or paying for emergencies. Some were associated with small capital expenditures in support of self-employment activities, but these businesses

remained resolutely tiny and individual or household-based.

The Bank Group has started efforts to develop M&E concepts for the Financial Inclusion Support Framework, focusing on outcomes and impacts measures of financial inclusion. These are important developments which, once implemented, would have to be complemented by research efforts to better understand under which conditions access to financial services leads to inclusion and to welfare benefits to the poor.

Adopting a rigorous M&E framework as part of a sequenced approach to project implementation provides a sound way forward. Such an 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.

Lowering transaction costs – not only initiation costs of, for example, setting up an account – 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 do initiatives such as India's use of the universal ID as a satisfaction of the know-your-customer requirement. Advancing these innovations, in partnerships with other agencies, through the suggested "sequenced approach" -- where the benefits for the poor in initial interventions are continuously monitored -- appears a potential way forward.

The current World Bank Group's strategy focuses on 25 priority countries. While this may entail an efficient resources allocation, it raises questions in light of the universality of the Bank Group's declared objective. In any case, the strategy may have to be adjusted going forward as the remaining financially excluded will be increasingly broadly distributed across many countries.

This suggests that the Bank Group should clarify its approach to financial inclusion. The Bank Group will also have to decide how it intends to close the access gap that will remain in 2020. Recent extrapolations conclude that, although current efforts may reach over a billion people, allowing for population growth, by 2020 just over one billion people may still be unbanked. How can the World Bank Group's support help financial services to reach these one billion? Will the costs of reaching them be prohibitive or can new technologies and approaches make it achievable? Financial inclusion – if pushed to the very low retail end – is likely to require subsidization, as indicated by recent research. Striking a balance between the costs and benefits of universal inclusion 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.

In this context, 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, including for the poor.

Recommendations

The following recommendations are intended to contribute to the World Bank Group's activities in support of financial inclusion for poor households and microenterprises:

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.