CGAP Consultative Group to Assist the Poor

May 2012

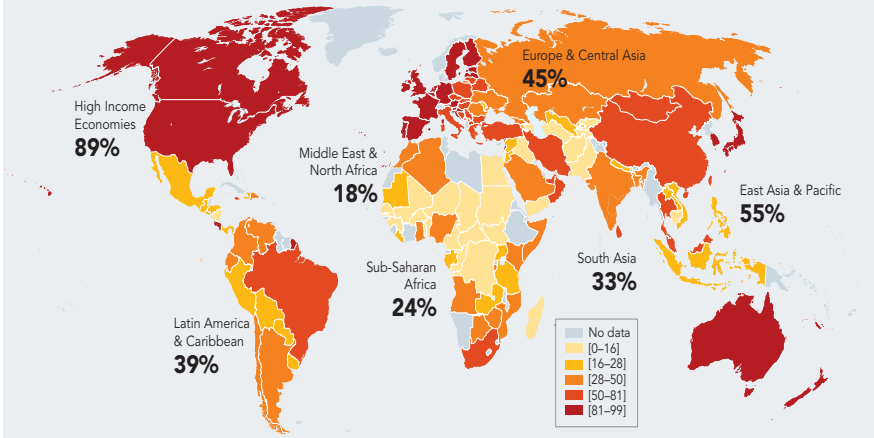
# Advancing Financial Access for the World's Poor

## A Brief History of CGAP

Despite progress made over the past 15 years, an estimated 2.5 billion working-age adults (more than half of the total number of working-age adults in the world) remain without formal financial services such as a savings or checking account (see Figure 1). This is a problem because poorer households need financial services as much, if not more, than wealthier families. First, their income streams and larger expenses tend to be irregular and unpredictable, and are not as neatly aligned as richer households' monthly paychecks and mortgage payments. Second, poor people have less of a cushion to absorb external shocks, such as a death in the family or a natural disaster. With no access to formal financial services, they have to rely on borrowing from friends, family, and moneylenders, or stuffing cash under the mattress—informal alternatives that are less reliable and safe, as well as often more expensive, than formal financial services.

In 1995, the World Bank and a set of leading donors formed CGAP for the purpose of advancing access to financial services for poor families in the developing world. Since then, CGAP has made a number of important leadership contributions, influencing the evolution of the field from its early focus on microcredit to a broader concept of microfinance, then access to finance, and most recently, financial inclusion. This evolution goes beyond semantics. As practitioners, donors, academics, and policy makers learned more about the financial needs of poor families in the informal economy, and as early successes led to important learning and new frontiers, the scope of those needs has broad-

**FIGURE 1** Percentage of adults with an account at a formal financial institution




*Source:* Measuring Financial Inclusion—The Global Findex Database, by Asli Demirguc-Kunt and Leora Klapper, April 2012

ened, and new ways to address them are emerging. As a public good at the frontier of a collective effort to develop strong functioning markets that reach all citizens, CGAP's major contributions over the past 15 years can be described across four eras:

- Helping to prove the concept
- Scaling success and professionalizing the sector
- Supporting a broader range of services
- Advancing new business models and promoting a responsible finance agenda

## HELPING PROVE THE CONCEPT

In the mid-1990s, social entrepreneurs in the developing world—primarily nongovernmental microfinance institutions (MFIs)—were pioneering new ways of providing credit to poor families in the informal economy. Innovations, such as group collateral (which allowed individuals to gain access to microcredit through a group guarantee), enabled MFIs to serve low-income families that previously had been considered "unbankable." These innovations proved that poor households could be served in a sustainable fashion.

CGAP's first phase (1995–1998) focused on supporting this early experimentation, collecting and disseminating information about sound practices, and broadly advocating for a sustainable approach to the provision of financial services for the poor. It became widely accepted that the best way to reach large numbers of poor people with permanent access to quality and cost-effective financial services is by attracting commercial resources, if only because such financial flows are more plentiful than fickle donor funding. As a result, a large and growing proportion of microfinance clients are being provided for by institutions that are profitable, while striving to reduce costs and to offer better products and services (see Figure 2).

## SCALING SUCCESS AND PROFESSIONALIZING THE SECTOR

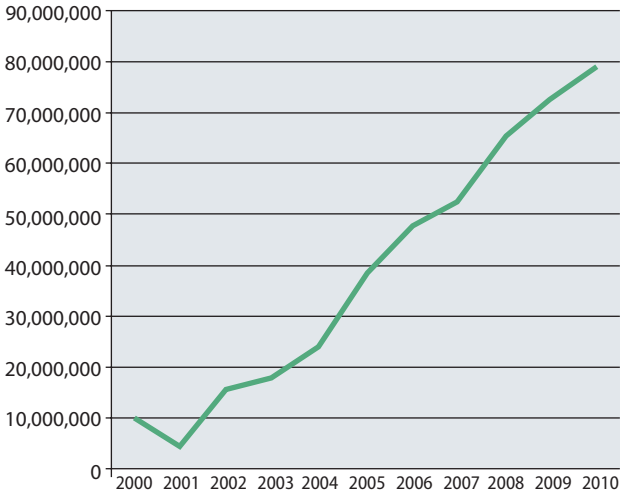
In the late 1990s, the industry focused on scaling up the initial microcredit success and on professionalizing the sector. The focus on building institutions was driven by the need to prove that service provision not only could be sustainable, but it could also be achieved at scale.

During this period, CGAP's second phase (1999–2003), contributed to the professionalization of microfinance, building consensus around good practice standards and creating transparency and new data sources. Working in partnership with local institutions, CGAP helped build the local technical capacity of thousands of MFI managers around the globe. To address the lack of reliable, comparable, and publicly available information, CGAP started the Microfinance Information Exchange (MIX), which has become the leading industry source for financial data and analysis on microfinance providers. (MIX was eventually spun off into an independent entity). Growing professionalization built investor confidence in microfinance, as reflected in significant increases in commercial and quasi-commercial capital (see Figure 3). Today's $70 billion microfinance industry reaching more than 200 million poor people remains an important showcase for successful private sector development catalyzed by strategic donor subsidies.

## SUPPORTING A BROADER RANGE OF SERVICES

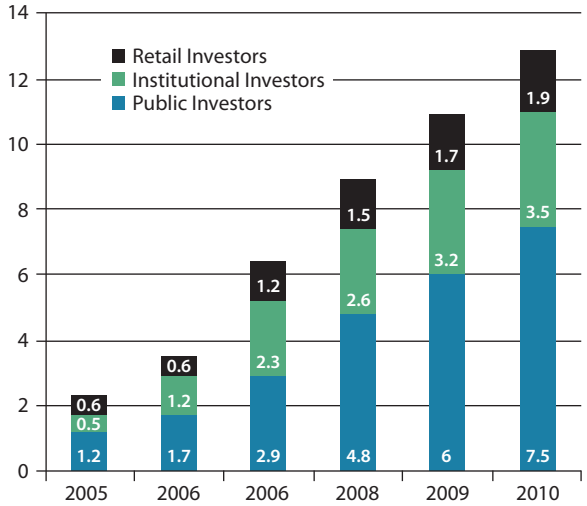
Poor families in the informal economy are typically producers and consumers at the same time. Their microbusiness activities and household needs are intermingled. As pro-

**FIGURE 2** Number of borrowers served by profitable insitutions




*Source:* 2010 CGAP analysis based on MIX data, of MFIs with available return-on-equity and return-on-assets data

**FIGURE 3** Commercial and quasi-commercial investment into microfinance (US$bn)




*Source:* CGAP Funding Surveys; 2010 data are CGAP estimates.

ducers, they need access to financial services to invest, generate income, and build assets. As households, they need to smooth consumption in the face of irregular income and expense streams and manage risks.

In the early 2000s, recognizing poor people's need for a broader range of services, the focus began to shift beyond microcredit to microfinance. A number of providers, from commercial banks to community-based organizations and microfinance banks, broadened their offerings to include services such as savings and insurance.

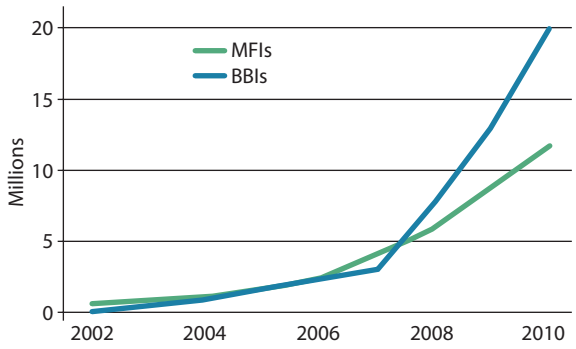
During its third phase (2003–2008), CGAP supported this shift by partnering with a wide range of institutions to promote a diversity of financial services to poor people. CGAP was a leader in working with commercial banks trying to down-scale and reach lower income customer segments. It launched the microinsurance working group, which eventually spun off into the industry-wide Microinsurance Network.

## ADVANCING NEW BUSINESS MODELS AND PROMOTING A RESPONSIBLE FINANCE AGENDA

While the range of financial products broadened in the mid-2000s, it became increasingly clear that the high transaction costs for providing financial services to poor people continued to be a major hurdle, in particular for remote areas. The field intensified its focus on expanding physical access to financial services. The cell phone and other technology-based solutions offered the promise of lower delivery costs and much greater outreach. CGAP was an early leader in supporting business model innovations using technology by generating and sharing new knowledge on branchless banking as a solution to the earlier, high-cost business model challenges.

In its current phase (2009–2013), CGAP has focused on advancing viable new business models and promoting responsible, consumer-friendly finance. With 1.7 billion people in the world with a cell phone but no bank account, there is a big opportunity to expand access to financial services. Technology-driven delivery models are spreading rapidly, promising to reduce costs and extend outreach to poorer and more remote clients (see Figure 4). By en-

**FIGURE 4** Branchless banking as a promising channel to reach the unbanked—outreach in seven countries




*Notes:* Compares number of people reached by largest MFI in seven countries to the total to number of unbanked people reached by branchless banking institutions. The seven markets selected are those where branchless banking is relatively advanced: Brazil, India, Kenya, Tanzania, Philippines, Cambodia, and South Africa.

*Source:* McKay, Claudia, and Mark Pickens. 2010. "Branchless Banking 2010." Focus Note 66. Washington, D.C.: CGAP, September.

couraging innovation and generating and sharing knowledge on branchless banking, CGAP has influenced key actors, particularly policy makers and regulators, and motivated them to consider branchless banking as a solution to increasing financial access for the poor.

In the late 2000s, we saw the first evidence of saturation in some high-growth microcredit markets, leading to episodes of over-supply and over-indebtedness. The narrower microfinance community realized the imperative to refocus on meeting clients' real needs and on consumer protection and financial literacy.

At the same time, policy makers became sharply aware of the importance of inclusive financial systems that reached more of their citizens. This broadening of the aperture is captured by the more recent language around financial inclusion with greater linkages to the mainstream financial system and mainstream players.

During this period, CGAP has helped the traditional microfinance sector develop a meaningful responsible finance agenda, and has played a major role in helping policy makers, for example, the G-20 and various international standard-setting bodies, as they address the challenges of building inclusive financial systems.

While the language has changed over the past 15 years with new insights and expanded horizons, CGAP's fundamental mission has remained the same: to help poor families realize their economic potential and improve their lives through access to financial services—services that wealthier people around the world take for granted.

## THE NEXT FIVE YEARS

Progress over the years has sharpened our understanding of the impact of access to financial services. A growing body of empirical evidence shows that access to the right financial product at the right time helps poor households build assets, generate income, smooth consumption, and protect themselves from risks. An inclusive financial system allows for more effective and efficient social policy interventions, for example through conditional payment transfers in health and education. And at the macro level, deeper financial intermediation in an economy leads to more growth and less inequality. Access to financial services is an important element for the success of an economy and the well-being of its citizens.

As a global partnership working for the public good, CGAP continues to focus on the issues critical to advancing financial access. At the outset of their consultations for the next five years, CGAP members expressed a strong commitment to do the following:

- Help the field develop a more differentiated understanding of client segments and their underlying needs, along key dimensions, such as livelihoods; gender; urban/rural; the informal economy at the lower end of the micro, small, and medium enterprise spectrum; financial decisions and behaviors; and the impact financial services can have on poor people's lives.
- Continue to support the development of local financial ecosystems that provide appropriate financial services in a sustainable fashion, responsibly delivered.
- Explore how financial systems that reach all citizens can help advance other development priorities, such as the climate change agenda, food security, or providing opportunities for youth, a population that is becoming an important force and change agent in many emerging markets.

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