STRATEGIC DIRECTIONS
FY2014–FY2018

CGAP

Advancing Financial Inclusion
to Improve the Lives of the Poor

MAY 15, 2013

Contents

Advancing Financial Inclusion to Improve the Lives of the Poor

CGAP's next five-year strategy (CGAP V) is the result of 15-month-long consultation process during which more than 300 stakeholders have contributed their thoughts and insights in a variety of forums. CGAP member institutions and the Executive Committee provided valuable feedback and guidance on a number of occasions. Together, they encouraged CGAP staff and leadership to be ambitious in setting the direction for the next five years of CGAP's work toward a world in which everyone can access and effectively use the financial services they need to improve their lives.

This document describes the strategic priorities identified through the CGAP V consultation process. It lays out the context and rationale for the proposed areas of work, related illustrative activities, and a five-year results framework against which progress will be monitored and evaluated.

This document sets forth a strategy framework that will guide CGAP's contributions to improving poor people's lives through greater financial inclusion in the next five years. Under this framework, CGAP's work will evolve over the next five years in line with market developments and will articulate specific activities every year in the context of its annual work planning exercise. How much and how fast CGAP can execute against the priorities laid out in this framework will depend on the resource commitments of CGAP donor members and partners.

This strategy document has six sections following the Executive Summary:

- *Section 1 addresses the importance of financial inclusion for the poor, achievements to date, and the unfinished agenda. It draws heavily on the research and evidence.*
- *Section 2 describes CGAP's vision, mission, and role. It outlines an engagement model and highlights CGAP's contributions over the years.*
- *Section 3 lays out CGAP's five-year strategic priorities. This is the core of this strategy document, where we articulate for each priority why we should work in this area, what we are trying to achieve, and how we intend to do so.*
- *Section 4 describes CGAP's approach to knowledge sharing and community building, an integral component of our work.*
- *Section 5 lays out the proposed results framework against which CGAP should be held accountable.*
- *Section 6 outlines current governance issues and provides a high-level budget outlook.*

Executive Summary

1. The Importance of Financial Services for the Poor

Living on Less Than US$2 a Day. Close to 2.5 billion people—more than one-third of the world's population—live on less than US$2 a day. Nearly 1.2 billion people remain below the extreme poverty line with an income of US$1.25 or less a day. In some developing countries, a wide gap—or in some cases, a widening gap—persists between rich and poor, and between those who can and cannot access opportunities. Other challenges, such as economic shocks, food shortages, and climate change disproportionately affect poor people. Typically those scraping by on US$2 a day live in the informal economy, earning their income from casual or part-time work or through self-employment. Even in middle-income countries often half of the total labor force works in the informal economy. But US$2 a day is just an average. Poor people make more on some days than on others, and work is seasonal, so often there is no income at all. The state likely offers limited help, and so the greatest source of support is family and the community. Poor households spend most of their money on the basics—food and fuel. And if meeting these basic needs is already a struggle, there is also the risk of shocks and setbacks. Families living in the informal economy are vulnerable to health shocks and emergencies, and it is often these events that push them further into poverty.

Why Financial Inclusion Matters for the Poor. The poor are typically excluded from formal sector opportunities. They live and work in the informal economy—not by choice, but by necessity. They are both producers and consumers, and they need financial access to build assets, create and sustain livelihoods, manage risks, and smooth consumption. The financial diaries literature has shown how actively poor families manage their financial lives. They save and borrow constantly in informal ways and at any given time; the average poor household has a number of financial relationships going on. For the poor, money management is a fundamental and well-understood part of everyday life, and it is a key factor in determining the level of success that poor households have in improving their own lives. But more than 75 percent of the world's poor are also excluded from formal financial services. Without access to formal financial services, poor families must rely on age-old informal mechanisms: family and friends, rotating savings schemes, the pawn-broker, the moneylender, money under the mattress. These informal mechanisms are insufficient, can be unreliable, and are often very expensive. Thus, financial exclusion imposes large opportunity costs on those who most need opportunity.

Increasingly Robust Evidence of Impact. A range of research methodologies is providing evidence that access to formal financial services is beneficial is accumulating at three levels. At the **microeconomic level**, access and use of appropriate financial service improves household welfare and spurs household enterprise activity, offering greater opportunity and choice to poor families. Early evidence from randomized evaluations indicates that (*i*) accumulating savings helps households manage cash flow spikes, (*ii*) microcredit positively impacts the income of existing microbusinesses and diversification of livestock, and (*iii*) microinsurance in the context of agricultural production increases yields and related revenue. (See Box 1 infra.) Second, financial access improves **local economic activity**. For example, rural bank branch expansion in India was associated with a significant reduction in rural poverty during 1977–1990. In Mexico, research showed that the rapid opening of Banco Azteca branches in more than a thousand Grupo Elektra retail stores had a significant impact on the economy of the region, leading to a 7 percent increase in overall income levels. In Kenya, research looked at the branch expansion of Equity Bank, which has rapidly grown to account for more than half of all deposit accounts in the country. The study found that Equity's branch presence had a positive and significant impact on local household use of bank accounts and bank credit. Finally at the **macroeconomic level**, there is well-established literature that shows that, under normal circumstances, the degree of financial intermediation is not only positively correlated with growth but is generally believed to causally impact growth. The main mechanisms for doing so are generally lower transaction costs for the economy and better distribution of capital and risk across the economy.

The Importance of Inclusive Financial Markets for Other Policy Objectives. Policy makers increasingly recognize that a financial market that reaches all citizens allows for more effective and efficient execution of other social policies. For example, financial inclusion improves the payment of conditional transfers, such as when parents are rewarded for ensuring their children get recommended vaccinations or for sending their daughters to school. Financially inclusive systems also result in savings to government; a number of countries are switching their government payments to electronic means to improve targeting of beneficiaries and reduce costs. Financial innovation for the poor is also increasingly important for other development priorities. In Kenya, where the mobile money service M-PESA reaches 80 percent of the population, a wave of second-generation innovation is emerging on the M-PESA infrastructure. The presence of a ubiquitous, low-cost electronic retail payment platform makes new business models that need to collect large numbers of small amounts viable—and may address other development priorities. For example, M-Kopa has created microleasing for off-grid, community-based solar power—an important example of innovation in the context of climate-change adaptation. Similar advances are being made with respect to water usage.

Our Unfinished Agenda. Despite their needs, and despite the micro, local, and macroeconomic benefits outlined above, half of all working-age adults (an estimated 2.5 billion people) are excluded from formal financial services (defined as having a savings or credit account with a formal institution). New demand-side survey data collected by Gallup/World Bank paints a stark picture. In the Middle East and North Africa, 82 percent of working-age adults are excluded. In sub-Saharan Africa and South Asia, 76 percent and 67 percent, respectively, of working-age adults are excluded. Globally, more than 75 percent of the poor are excluded. While account penetration is nearly universal in high-income countries (89 percent), only 41 percent of adults in developing countries have an account with a formal financial institution. Across all regions and income groups, there is a persistent gender gap: men are on average nine percentage points more likely than women to have an account. The older and the younger are disproportionally excluded, and so are rural populations, particularly in low-income countries, where account penetration in rural areas is lower by an average of 13 percentage points. In addition, there are 365–445 million informal and formal micro, small, and medium enterprises (MSMEs) in developing countries, and that 70 percent of them do not have access to financial institutions. Moreover, 80 percent of these MSMEs are estimated to be informal micro, very small, or small businesses.

Global and national policy makers have recognized the importance of addressing this hugely unfinished agenda. G-20 leaders have made financial inclusion a key pillar of their development strategy. The global financial Standard-Setting Bodies increasingly recognize the explicit risks associated with financial exclusion and have started to incorporate the importance of financial inclusion in their work. At the national level, policy makers increasingly recognize the importance of inclusive, local financial systems for economic and social progress in their countries. This political tailwind, combined with continued business model innovations and an increasingly better understanding of how poor people use financial services, has set a powerful stage to successfully tackle the largely unfinished agenda.

2. CGAP's Vision and Mission

CGAP's Vision. The poor are by necessity active managers of their financial lives but typically remain excluded from formal financial services. As a result, they are forced to rely on the informal mechanisms available to them that can often be unreliable and very expensive. Against this backdrop, CGAP shares the powerful and broad vision for financial inclusion that has emerged among global and national policy makers, practitioners, and the development community: **Our vision is a world where everyone can access and effectively use the financial services they need to improve their lives.**

This vision captures key elements of the intended nature and purpose of inclusive financial markets:

- "… everyone …" CGAP's focus on the poor means a focus on inclusion with a broad range of appropriate products that reach all, including informal small businesses. It does not mean developing separate financial markets for the poor.
- "… can access and effectively use financial services they need…" To attract poor customers, formal financial services must be superior in value to the informal services with which they compete, in terms of suitability, reliability, and cost. We believe that this can be largely achieved. The goal is ultimately to offer lower cost alternatives to enable informed choices and effective use.
- "… to improve their lives." Financial services are a means to an end. They can help families invest in and run sustainable livelihoods, build assets, manage risks, smooth consumption, and provide the peace of mind crucial for future planning. For CGAP and the broader donor community that uses subsidized capital to spur market development, it is of foundational importance that access and use of quality financial services ultimately lead to increased economic well-being and opportunity and decreased vulnerability.

CGAP's Mission. Our mission is to improve the lives of poor people by spurring innovations and advancing knowledge and solutions that promote responsible and inclusive financial markets. CGAP's role is to advance and accelerate development of these financial markets by working on frontier issues, which when unlocked, have the greatest potential to deliver high-quality financial services that benefit a growing number of those who are currently unserved or underserved. This role has important implications for CGAP's work. First, CGAP should pursue a global learning agenda and a portfolio of high-impact initiatives that purposefully evolve over time as they adapt to changing market developments. Second, a key CGAP objective is to crowd-in private, social, and public sector entities as appropriate. Third, CGAP's work must continue to align with the two central purposes of subsidized catalytic capital in the promotion of inclusive market development: (*i*) generation of open knowledge, open data, and related practical insights of a public good nature, and (*ii*) private and social sector experimentations that demonstrate viable product and business model innovations. A fourth implication is that CGAP's success should be assessed in terms of achieving ex-ante articulated contributions toward prioritized market development outcomes on the path toward full financial inclusion.

3. CGAP Five-Year Strategic Priorities

Today, as awareness and aspirations begin to align, several powerful trends have converged to bring us to an exciting inflection point with great potential to advance financial inclusion:

- There is an evolving understanding of the needs, preferences, and behaviors of poor households, particularly those in the informal economy, who are active managers of their financial lives, but whose needs are not yet adequately met by formal financial service providers.
- Financial services providers who, not least spurred by the entrance of nontraditional players such as mobile money providers, have an interest in reaching low-income and poor populations, but often do not know how to translate demand-side insights into viable products and delivery models.
- Global and national policy makers who want to advance financial inclusion but with demands on their time and resources that compete with the inclusion agenda.
- A global community of funders that believes in responsible market development and is willing to provide catalytic, subsidized capital, but needs to redefine its role in the broader financial inclusion context.

These converging forces represent an important opportunity to achieve significant advances toward full financial inclusion. Supporting the growing momentum to include millions of economically active low-income and poor people in the financial system is both an opportunity and an imperative. In this context, CGAP proposes the following five priority areas for its next phase:

- Understanding demand to effectively deliver for the poor
- Financial innovation for smallholder families
- Developing robust provider ecosystems
- Building an enabling and protective policy environment globally
- Promoting effective and responsible funding for financial inclusion

3A. Understanding Demand to Effectively Deliver for the Poor

CGAP strives to ensure that clients are at the center of financial inclusion by demonstrating how financial service providers can be more client-centric and by improving global data on financial inclusion so that its impact is better understood. High levels of financial exclusion indicate a clear mismatch between the demand for financial services and their supply. A major reason for this mismatch has been the lack of attention on effectively sourcing and translating information on poor people's financial needs, behaviors, and preferences into a better service offering. The focus has been on products—often one product (microcredit) to one client segment (microentrepreneurs)—rather than listening to poor people and offering solutions to meet their complex and evolving financial services needs over their lifetimes. To ensure that access to financial services improves poor people's lives, financial inclusion must be client-centric. Client-centricity is about providing financial solutions based on a deep understanding of poor people's needs, preferences, and behaviors. This will require a shift from a transactional approach (i.e., narrow focus on selling a product to a customer) to a relationship approach (i.e., broad focus on understanding the dynamic needs and behaviors of customers over their lifecycle).

Strategic Outcome 1: Providers systematically source and translate client-specific insights into a suite of quality and sustainable financial services at scale. To make a tangible difference to clients, CGAP's demand work must link with the supply side that is ultimately responsible for effective delivery. CGAP's work on this outcome responds to the challenge of increasing the commitment, incentives, and capacity of providers to source and translate insights into a better service offering. To achieve this outcome CGAP will work with partners to (*i*) build foundational knowledge on clients, (*ii*) translate client insights into better service offerings, and (*iii*) focus on underserved client segments such as the extreme poor, youth, and small businesses.

Strategic Outcome 2: Financial inclusion stakeholders use harmonized, high-quality global data and impact research to make evidence-based decisions that advance responsible financial access to the poor. Obtaining good data on financial inclusion is a first step in improving the empirical evidence base on the impact of financial access. Better evidence is needed, particularly with respect to usage and quality, using various research methods. Improving the understanding of the impact of access to financial services as well as how and when impact is achieved will help improve the products and services on offer. Moreover, it will allow for setting more clear and realistic expectations of the role of finance, as one, among other, tools in the development tool box.

3B. Financial Innovation for Smallholder Families

CGAP's client orientation naturally leads to a greater focus on the largest global segment of those living on less than US$2 a day: smallholder families. With its direct poverty focus and link to the broader development goal of food security, innovative financial services for these families represent an important priority for CGAP to explore. Given that smallholder families are not only agricultural producers but also consumers with diverse financial needs and varied sources of income, CGAP's work with smallholder families would focus on ensuring that the least-served smallholder segments (particularly noncommercial smallholders) have access to and actively use financial services tailored to the full array of their financial needs, including both (*i*) finance for agricultural activities and (*ii*) other financial needs, such as off-farm enterprising and household consumption.

Strategic Outcome 1: Stakeholders accurately understand the financial services needs of underserved smallholder segments (particularly noncommercial smallholders) as both agricultural producers and consumers with other sources of income. Compounding the challenges of serving smallholder families is a lack of information—relatively little is known about the financial services needs of harder-to-reach segments. There is general agreement that the first step in effective product design is developing a detailed understanding of the intended client segment and its specific constellation of needs, preferences, and behaviors. Consequently, CGAP would initially prioritize targeted demand research on poor, smallholder households, working with partners to accurately identify the full spectrum of their financial needs.

Strategic Outcome 2: Service providers and other stakeholders develop and pilot more effective financial services and products tailored to enhance the value proposition for smallholder families, focusing on improving their risk management ability and lowering provider delivery costs through the use of technology. The information gap is not just about demand but also about supply. To develop and pilot more tailored products and services, CGAP would work with partners to extract globally applicable lessons, focusing particularly on identifying the strengths and weaknesses of existing products and delivery channels, and facilitating the availability of performance indicators on a public platform. We would also work with mobile network operators (MNOs) and other private-sector actors to identify how technology can help drive down costs to more effectively reach smallholder families.

3C. Developing Robust Provider Ecosystems

While technology-enabled business models have driven down delivery costs of certain financial services, the task now is to use technology to help create a provider ecosystem that seamlessly reaches more poor people with a broader range of services at lower costs. Globally, there are more than 120 technology-enabled businesses reaching 197 million clients, 27 of which already serve more than 1 million clients. Yet despite glimpses of progress and widespread excitement about technology-enabled business models, these payments services have yet to prove sustainable. Few deployments have reached scale, registered users often remain inactive, and the business case for these multiple-party ventures remains tenuous. An ecosystem involving multiple providers is needed. Most financial products have delivery, intermediation, and risk mitigation challenges that often can be more efficiently managed through a number of specialized institutions acting together rather than one institution acting alone. Some of the key barriers that the sector must overcome include (*i*) improving effectiveness of provider deployments, (*ii*) improving policy for market development (particularly with respect to "second generation" regulatory issues, such as interoperability and competition policy), and (*iii*) improving the linkages between technology-enabled payment systems and other key areas of development, such as clean energy, agriculture, education, water and sanitation, transportation, and health.

Strategic Outcome 1: Private- and public-sector businesses (banks, microfinance institutions [MFIs], MNOs, agent aggregators, automatic teller machines [ATMs] and point-of-sale [POS] networks, retailers, third-party payment providers, switches, and others) form country-level ecosystems that offer low-cost payment services enabling a wider range of client-responsive financial services for the poor at scale. CGAP's work will focus on improving the effectiveness of provider deployments. CGAP will create a learning agenda based on emerging knowledge gaps and, through research and technical assistance across markets, will extract globally relevant lessons for the broader industry. Key learning agenda topics include business models, data for product development, and how financial innovation can benefit broader development goals.

Strategic Outcome 2: National regulators (financial sector, telecommunications, competition, and others) and policy makers understand the economic rationale of multi-stakeholder provider ecosystems and issue regulations and adopt policies that appropriately balance innovation and risk. CGAP's work will focus on improving policy for market development. Innovations that reach the poor sustainably and at scale require a full set of public and private providers that are involved in the distribution and provision of financial services. Many of these providers are not the traditional set of financial institutions with which regulators engage, and consequently, there is often a tendency to over-regulate, sometimes stifling innovation. It is often difficult for regulators to understand these new businesses and their potential risks and benefits. CGAP will work with regulators and policy makers to share insights into these businesses and build the complete picture of the emerging ecosystem.

3D. Building an Enabling and Protective Policy Environment Globally

CGAP's policy agenda focuses on promoting policy and regulatory frameworks for financial inclusion that (*i*) balance innovation with stability, integrity, and protection and (*ii*) protect consumers and are responsive to evolving risks. The policy environment can be the "make or break" factor in closing the financial access gap for poor households and businesses. A key challenge is to facilitate a fundamentally different perspective on the role of financial inclusion in broader financial policy making. Traditionally, global standard-setting bodies (SSBs) and country-level policy makers have focused on the goals of financial stability, financial integrity, and to a more limited extent financial consumer protection, with many holding a view that progress made on financial inclusion would be at the expense of the stability and integrity of the financial system. The global financial crisis coupled with an increasing number of governments committed to financial inclusion with a focus on stability and integrity have called into question the traditional view of financial-sector policy. This creates an imperative to explore and understand better the linkages among financial inclusion and the other objectives of financial policy, regulation, and supervision: stability, integrity, and consumer protection. Increased evidence, guidance, and compelling articulation of these linkages are critical to shift the thinking of country-level policy makers, standard-setters, and emerging global actors.

Strategic Outcome 1: Policy makers—both domestically and through global bodies—are engaged and supported to create policy environments that promote financial inclusion, while optimizing its linkages with financial stability, financial integrity, and financial consumer protection (I-SIP), minimizing negative trade-offs and maximizing positive synergies. There is growing appreciation by both global and country-level policy makers that financial inclusion (I) can support the traditional financial sector policy objectives of financial stability (S), integrity (I), and consumer protection (P). Policy makers today do not have good tools to analyze and *optimize* the linkages among the I-SIP policy objectives. Expanded research and engagement is needed on each of the objectives (as well the many sub-objectives that contribute to them, such as competition among providers in the case of inclusion). But particular emphasis is needed on the linkages among them, which will help policy makers understand and optimize such linkages and will play a critical role in efforts by policy makers to build enabling and protective policy environments for responsible market development.

Strategic Outcome 2: Effective and proportionate consumer protection measures that benefit poorer and excluded customer segments are implemented in diverse countries, complementing initiatives that strengthen responsible provider behavior and consumer financial capability. The global financial crisis and the over-indebtedness crises have reinforced the understanding that financial inclusion must be *responsible.* This is resulting in a policy shift in many countries toward greater consumer protections and rights, as well as increased recognition of the particular challenges faced by low-income, financially excluded or underserved consumers. Putting in place policy and regulatory regimes through improved transparency, provider practices, and recourse options that effectively protect consumers, including those who are more vulnerable, benefits financial inclusion by (*i*) preventing consumer harm, such as over-indebtedness, (*ii*) building trust in the financial sector, and (*iii*) reinforcing uptake and usage. These policy frameworks and specific measures must be geared to the realities of limited policy-maker staff capacity and resources in countries with high levels of financial exclusion.

3E. Promoting Effective and Responsible Funding for Financial Inclusion

CGAP's financial inclusion funding agenda focuses on helping donors and investors play a catalytic role in responsible market development through the provision of effective financing. The emergence of strong MFIs that serve more than 200 million clients has been an important success due in large part to the commitment of the development community. With better understanding of the financial services needs of the poor, the donor and investor community is now looking for ways to achieve broader inclusion. There is a need to move beyond institution building to supporting broader market development for financial services that reach the poor. Helping redress the mismatch of what the market needs versus where funding is allocated and making sure resources are catalytic for a responsible market development is at the core of CGAP's work. With the need to shift toward a market-development approach, CGAP's role will also need to identify "emerging practices" in areas in which the industry has yet to develop deep or extensive expertise. These new emerging practices represent the modern version of donor guidelines, but adapted to a more rapidly evolving market and taking into account new technologies and innovation and different roles for different actors. CGAP will continue to promote standards for responsible funding and effectiveness that have been developed and agreed upon over time and will add new guidance on practices as they emerge.

Strategic Outcome: Donors, development finance institutions (DFIs), and social investors play a catalytic role in providing appropriate financing for responsible market development. To achieve effective and responsible funding for financial inclusion, CGAP will work with different funder segments to support their ability to play a catalytic role in market development. CGAP will strive to build consensus on the evolving role of funders and share learning on funding mechanisms through a process of peer learning and coordination among funders. CGAP will also support internal systems, incentives, and results measurement as well as research funding flows and evidence of funding impact.

4. Knowledge Sharing and Community Building

CGAP creates and shares practically relevant knowledge that advances access to financial services for the poor. With a global learning agenda at the core, knowledge sharing and communications are central to everything we do. CGAP has built a fully integrated communications platform that uses the full range of tools, encompassing new media and social media—blogs, multimedia, live presentations, and online events—to maximize the impact of our work with financial institutions, other market actors, policy makers, and funders. We leverage staff through multiple partnerships, and strategic communications are integrated throughout the organization. We have increasingly built social engagement into our strategy, integrating the CGAP.org and Microfinance Gateway Web sites, blogs, social media, and social sharing of content. CGAP already has a strong social media footprint, but we expect to continue to leverage social sharing and expand CGAP's social media presence significantly, measuring both outreach and engagement. As we look at going beyond just a corporate presence, we will facilitate further CGAP staff engagement on social media.

5. Results Framework and Monitoring and Evaluation

Results Framework. The three levels of accountability of CGAP's proposed results framework measures progress against (*i*) expansion of access to and effective usage of financial services by the poor, (*ii*) CGAP's achievement of expected outcomes over the CGAP V five-year strategy, and (*iii*) CGAP's performance as a member-governed organization with a long-term mission. Given the challenges of attribution with CGAP's role and engagement model, it is important to note that the results framework includes both quantitative and qualitative data to better trace and understand the process by which CGAP achieves results and assess CGAP's relative contribution to such achievement.

Monitoring and Evaluation. For monitoring, an internal project-level system has been in place for many years, with performance targets and indicators established at the beginning of all CGAP projects. Monitoring reports are prepared bi-annually, and CGAP provides annual reports to its members on achievement of annual work plans. The CGAP Executive Committee also commissions a mid-term external evaluation of each strategic phase to assess CGAP progress on achievements toward the five-year strategy. For ex poste evaluation, CGAP is exploring the use of "contribution analysis" methodologies that focus on gathering evidence on the contribution a program makes on the outcomes it is trying to influence.

6. CGAP V Governance, Budget, and Operations

Governance. In September 2011, the CGAP Executive Committee commissioned a mid-term evaluation of CGAP's performance. The evaluation suggested a review of CGAP's governance arrangements with the launch of the new strategy as a way to ensure that the roles and responsibilities of the Council of Governors (CG), Executive Committee, and the Investment Committee keep pace with current operational practice, evolving World Bank administrative requirements, and strategic needs. Upon adoption of the strategy, a small team of operational team members, CG members, and World Bank Group staff will offer a view on various governance reforms, including the question of nonpaying members, and prepare an overall charter refresh for CG approval.

Budget and Operations. The cost for implementing CGAP IV, with an average of 47 full-time team members was approximately US$100 million, or US$20 million per year. We maintained strong core contributions, which increased during the phase to an average of US$13.5 million per year, or US$67.5 million for the entirety of CGAP IV. This was complemented by designated contributions. To adequately address the full thematic depth of the work as presented in the strategy document, the estimated resource requirement for CGAP V is approximately US$120 million over the full five-year period (US$24 million per year). We anticipate small but strategic increases in operational staff levels to fully implement CGAP V. To fund the new strategy as presented, the average annual contribution for CGAP V will need to increase. In line with long-standing CG and Executive Committee guidance for selectivity, several of the priority areas described in this document can be launched only if there is net new additional funding over historical trends.

1. The Importance of Financial Services for the Poor

1A. Living on Less Than US$2 a Day

Close to 2.5 billion people—more than one-third of the world's population—live on less than US$2 a day. Nearly 1.2 billion people remain below the extreme poverty line with an income of US$1.25 or less a day (Ravallion 2012). In some developing countries, a wide gap—or in some cases, a widening gap—persists between rich and poor, and between those who can and cannot access opportunities. Other challenges, such as economic shocks, food shortages, and climate change disproportionately affect poor people.

Typically, those scraping by on US$2 a day live in the informal economy, earning their income from casual or part-time work or through self-employment. Even in middle-income countries often half of the total labor force works in the informal economy (ILO 2011). But US$2 a day is just an average. Poor people make more on some days than others, and work is seasonal, so often there is no income at all. The state likely offers limited help and so the greatest source of support is family and the community (Collins, Murdoch, Rutherford, and Ruthven 2009).

Poor households spend most of their money on the basics—food and fuel. And if meeting these basic needs is already a struggle, there is also the risk of shocks and setbacks. Families living in the informal economy are vulnerable to health shocks and emergencies, and it is often these events that push them further into poverty.

1B. The Centrality of Financial Inclusion for the Poor

Why Financial Inclusion Matters. The poor are typically excluded from formal sector opportunities. They live and work in the informal economy—not by choice, but by necessity. They are both producers and consumers and need financial access to build assets, create and sustain livelihoods, manage risks, and smooth consumption. The financial diaries literature has shown how actively poor families manage their financial lives (Collins, Murdoch, Rutherford, and Ruthven 2009). They save and borrow constantly in informal ways. At any given time, the average poor household has a number of ongoing financial relationships. Money management is, for the poor, a fundamental and well-understood part of everyday life, and is a key factor in how successful poor households are in improving their own lives.

Financial inclusion means that households and businesses have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably, in a well-regulated environment.

But more than 75 percent of the world's poor are also excluded from formal financial services (Demirguc-Kunt and Klapper 2012). Without access to formal financial services, poor families must rely on age-old informal mechanisms: family and friends, rotating savings schemes, the pawn-broker, the moneylender, money under the mattress. These informal mechanisms are insufficient, can be unreliable, and are often very expensive. Thus, financial exclusion imposes large opportunity costs on those who most need opportunity.

Increasingly Robust Evidence of Impact. A range of research methodologies is providing evidence that access to formal financial services is beneficial. At the **microeconomic level**, access and use of appropriate financial service improves household welfare and spurs household enterprise activity (see Box 1), offering greater opportunity and choice to poor families.

Box 1. Results of Randomized Evaluations on Household Impact

To assess whether any intervention works, one has to know what would have happened without it. While there are statistical control methods for larger scale empirical studies, an increasingly influential group of development economists argues that a powerful way to account for such "counterfactuals" is the use of randomized evaluations.

This emerging body of empirical evidence uses methodologies similar to medical trials where access to specific new services is randomly assigned, and the impact of a change in access on one customer group is compared to a second group that does not have the same access. Despite the still relatively small (though growing) number of this type of randomized evaluation and the failure to detect direct benefits over the time horizon studied in some contexts, the general thrust of this relatively new body of evidence suggests that financial services, and particularly savings devices, do have a positive impact on household behavior and well-being (Bauchet et al. 2011). Some of the important evidence these randomized evaluations have yielded include the following.

Credit. Beyond providing working capital loans to microentrepreneurs, borrowing money can help households manage cash-flow spikes and smooth consumption. Cutting-edge behavioral research also suggests that the mere peace of mind associated with the knowledge that credit is available can help households make better decisions that improve welfare in the long run (Cf. Institute for Research on Poverty 2011). Empirical studies of the impact of microcredit indicate a mixed picture. Studies in India and Morocco showed no impact on poverty reduction within a one- to two-year timeframe (Banerjee, Duflo, Glennerster, and Kinnan 2010; Crépon, Devoto, Duflo, and Parienté 2011). They did not find evidence for a direct effect of higher spending or other measures of health, education, or women's decision making relative to the control group. On the other hand, studies have shown positive effects on the income of existing microbusinesses (India and the Philippines), diversification of livestock (Morocco), and reduction in the spending on temptation goods, such as tobacco (India and Morocco). A South Africa study that looked at expanding access to consumer credit found increased borrower well-being: food consumption went up, and measures of decision making within the household went up, alongside the borrower's status in the community and overall optimism (Karlan and Zinman 2010).

Savings. The results of studies on the impact of savings are stronger than for credit. Accumulating savings helps households manage cash-flow spikes. Researchers think that saving small amounts at home is difficult for poor households given multiple, immediate demands of various household members. When mechanisms for high-frequency, low-balance deposit services are available, results could be strong. A recent randomized evaluation found that access to a new commitment savings service in Kenya enabled female market vendors to mitigate the effect of health shocks, increase food expenditure for the family (food expenditures were 10–20 percent higher), and increase investments in their businesses by 45 percent over female vendors without access to a savings account (Dupas and Robinson 2011). A more recent study on commitment savings in Malawi also showed positive effects on business investment and increased expenditures for savers (Brune, Giné, Goldberg, and Yang 2011).

Insurance. Insurance helps poor households mitigate risk and manage shocks. The primary challenge so far has been to find mechanisms that are helpful to poor households, yet manageable from an actuarial and operational insurance perspective. Recent randomized evaluations in India and Ghana of weather-based index insurance showed strong positive impact on farmers as the assurance of better returns encouraged them to shift from subsistence to cash crops (Cole et al. 2011; Karlan, Osei-Akoto, Osei and Udry 2012). In Ghana, insured farmers bought more fertilizers, planted more acreage, hired more labor, and had higher yields and income, which led to fewer missed meals and fewer missed school days for the children. However, take-up of insurance has been low among poor farmers (Bauchet et al. 2011).

Payments. To date there has been only one randomized evaluation on the impact of a cash transfer program delivered via mobile phone. This Niger study (Aker, Boumnijel, McClelland, and Tierney 2011) showed reductions in both the cost of distribution for the implementing agency and the cost of obtaining the cash transfer for the program recipient. This cost savings resulted in diversification of expenditures (including food), fewer depleted assets, and a greater variety of crops grown, especially cash crops grown by women.

Second, financial access improves **local economic activity**. For example, opening bank branches in rural unbanked locations in India in 1977–1990 was associated with a significant reduction in rural poverty (Burgess and Pande 2005). In Mexico, research (Bruhn and Love 2009, 2012) showed that the rapid opening of Banco Azteca branches in more than a thousand Grupo Elektra retail stores had a significant impact on the economy of the region, leading to a 7 percent increase in overall income levels. In Kenya, research looked at the branch expansion of Equity Bank, which has rapidly grown to account for more than half of all deposit accounts in the country. The study (Allen et al. 2012) found that Equity's branch presence had a positive and significant impact on local household use of bank accounts and bank credit.

Finally at the **macroeconomic level**, there is a well-established literature (summarized in Levine [2005]) that shows that under normal circumstances, the degree of financial intermediation is not only positively correlated with growth, but it is generally believed to causally impact growth. The main mechanisms for doing so are generally lower transaction costs for the economy and better distribution of capital and risk across the economy.

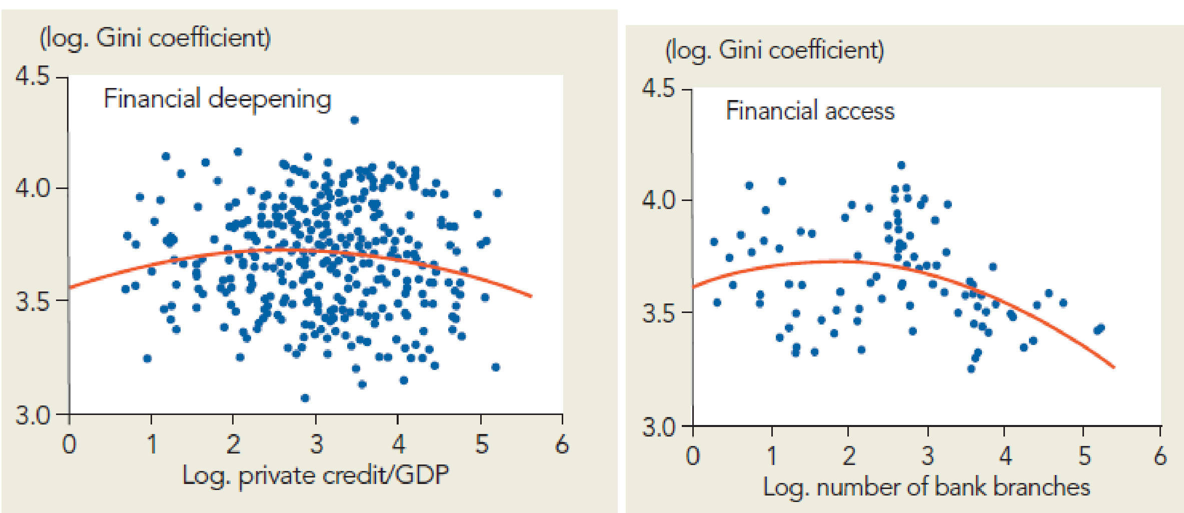
However, there are some caveats. Some research indicates that the positive growth impact from financial intermediation does not hold in economies with weak institutional frameworks (Demetriades and Law 2006), such as poor or nonexistent financial regulation, or in extremely high-inflation environments (Rousseau and Wachtel 2002). More recent work following the global financial crisis also suggests that the relationship between financial depth and growth might not be linear, but shaped like an inverted "U"—i.e., at very low levels of financial intermediation and at very high levels, the positive relationship disappears (Cecchetti and Kharroubi 2012).

From a poverty-reduction perspective, the literature has also found that financial development under normal circumstances does not merely grow the economic pie—it also divides it more equally. Better and cheaper services for saving money and making payments allow households and enterprises to avoid the cost of barter and cash transactions, provide the opportunity to accumulate assets, smooth income. Insurance services help firms and households cope with shocks and reduce their vulnerability to adverse situations, thus reducing their risk of falling into poverty. Financial development should also relax the credit constraints on poor people, who lack collateral, credit history, and connections.

Recent work by researchers at the International Monetary Fund (IMF) documents empirical evidence on the impact of financial development on inequality. Using the Gini coefficient[1] to measure inequality and private credit and bank branch growth as measures of financial market development, higher income segments seem to initially benefit more from deeper financial intermediation, but as it progresses, poorer segments benefit, too. Notably, as access increases (as measured by bank branch growth), inequality declines sharply (see Figure 1).

Figure 1. The Impact of Financial Development on Inequality

As intermediation deepens, poor segments benefits. **As access increases, inequality declines.**



Source: Jahan and McDonald (2011).

The Importance of Inclusive Financial Markets for Other Policy Objectives. Policy makers increasingly recognize that a financial market that reaches all citizens allows for more effective and efficient execution of other social policies. For example, financial inclusion improves the payment of conditional transfers such as when parents are rewarded for ensuring their children

[1] The Gini coefficient ranges from 0, when all households have the same income, to 1 when one household has all the income.

get recommended vaccinations or for sending their daughters to school. Financially inclusive systems also result in savings to government; a number of countries are switching their government payments to electronic means to improve targeting of beneficiaries and reduce costs. In Brazil, for example, the *bolsa familia* program (a conditional cash transfer program that serves 12 million families) reduced its transaction costs from 14.7 percent of total payments to 2.6 percent when it bundled several benefits onto one electronic payment card. The recently formed "Better-than-Cash Alliance," comprised of leading donors, governments, and nongovernment organizations (NGOs), lists increasing transparency and reducing corruption as explicit objectives.

Financial innovation for the poor is also increasingly important for other development priorities. In Kenya, where the mobile money service M-PESA reaches 80 percent of the population, a wave of second-generation innovation is emerging on the M-PESA infrastructure. The presence of a ubiquitous, low-cost electronic retail payment platform makes new business models that need to collect large numbers of small amounts viable—and may address other development priorities. For example, M-Kopa has created microleasing for off-grid, community-based solar power—an example of innovation in the context of climate-change adaptation. Similar advances are being made with respect to water usage.

A large number of countries are committing to advance financial access based on the evidence of impact on the lives of their citizens, and the proven potential for inclusive and efficient financial markets to reduce costs, spur economic activity, and improve delivery of other benefits.

1C. Financial Inclusion: Achievements to Date

In the past 15 years, financial access for the poor has moved from a niche issue pursued by a handful of social entrepreneurs in the developing world to an important item on the agenda of global leaders concerned about inequality and inclusive growth more broadly. During this time, the field has experienced a number of breakthroughs, important new lessons learned, and dramatic expansion of the field's landscape and range of players. The early pioneers have continued to evolve their offerings and business models. Regional variations notwithstanding, a field focused initially on microcredit broadened first to microfinance, then to access to finance, and most recently to financial inclusion.

By the mid-1990s, the still-nascent field of **microcredit** focused primarily on addressing the credit needs of the poor. Social entrepreneurs in the developing world successfully pioneered new ways of providing credit to poor families in the informal economy. The innovation of social collateral made it possible to serve low-income segments that had been previously considered "unbankable." In the late 1990s and early 2000s, the industry focus shifted to scaling up the evolving microcredit model and on professionalizing the sector. This focus on building institutions proved that the poor could be served in a financially sustainable fashion at scale.

By the mid-2000s, the field began to recognize the broader range of financial services needs of the poor and moved to work more broadly on **microfinance**. Many poor families in the informal economy are simultaneously producers and consumers. Their microbusiness activities and household needs are often intermingled. As producers, they need access to financial services to invest, generate income, and build assets. As consumers, they need to smooth consumption in the face of irregular income and expense streams and manage risks. Services such as savings and insurance emerged and expanded to address the broader range of financial needs of poor households.

While the product range expanded somewhat in the late 2000s, it became increasingly clear that the cost of service for the typically very low value of financial transactions of the poor was a major hurdle, in particular for service to remote areas. The field started to focus on driving down costs and, more broadly, on **access to finance**. In particular the advent of the cell phone and other technology-based solutions (coupled with the use of nonbank agents) have provided the first proof-points on new business models that can significantly increase reach and lower delivery costs

More recently, the microcredit sectors in a small number of high-growth markets showed tendencies toward market saturation, including episodes of over-indebtedness. The narrower microfinance community realized the need to re-focus on clients and take consumer protection and financial literacy measures. At the same time, global and national policy makers realized the importance of more inclusive financial markets that reached a larger share of its citizenry. The focus has consequently shifted to a broader understanding of **financial inclusion**, delivered responsibly and with greater linkages to the mainstream financial system and mainstream players.

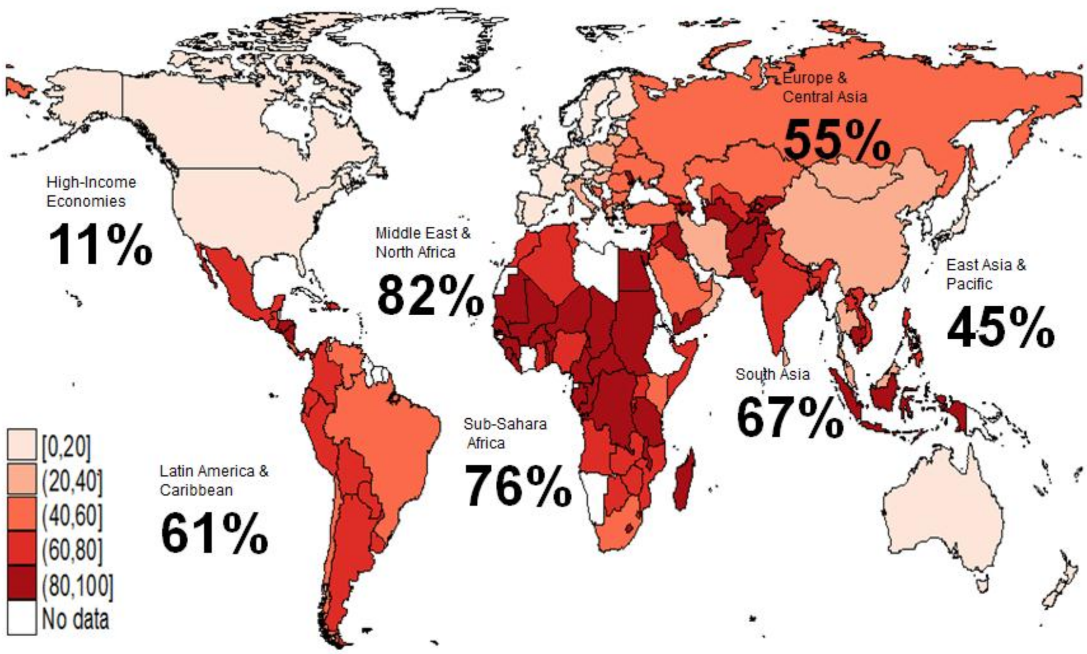
Starting with the proof of concept in microcredit, successful scaling of microfinance, better understanding of client needs, promising experimentations around technology-enabled new business models, and with the embrace of global and national leaders, the field now has an arguably unique opportunity to make real progress against a largely unfinished agenda: to reach far more of today's excluded poor with the broader range of financial services they need to improve their lives.

1D. Half the World Excluded: Our Unfinished Agenda

Despite their needs, and despite the micro, local, and macroeconomic benefits outlined above, half of all working-age adults (about 2.5 billion people) are excluded from formal financial services (defined as having a savings or credit account with a formal institution). New demand-side survey data collected by Gallup/ World Bank allow us to disaggregate this global data.

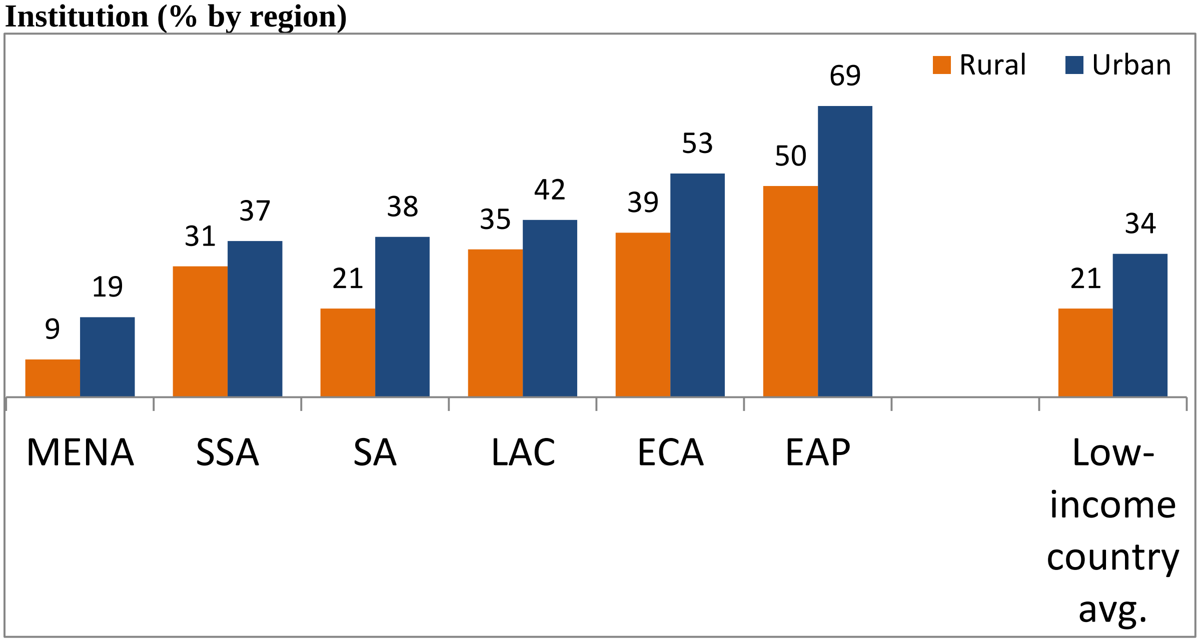
The picture is stark. In the Middle East and North Africa, 82 percent of working-age adults are excluded. In sub-Saharan Africa and South Asia, 76 percent and 67 percent, respectively, of working-age adults are excluded (World Bank Findex Database 2012, see Figure 2). Globally, more than 75 percent of the poor are excluded. While account penetration is nearly universal in high-income countries (89 percent), only 41 percent of adults in developing countries have an account with a formal financial institution. Across all regions and income groups, there is a persistent gender gap: men are on average nine percentage points more likely than women to have an account. The older and the younger are disproportionally excluded, and so are rural populations, particularly in low-income countries, where account penetration in rural areas is lower by an average of 13 percentage points (see Figure 3).

Figure 2. The Financially Excluded: Adults Without a Formal Account



Source: Derived from Demirguc-Kunt and Klapper (2012).

Figure 3. Rural and Urban Breakdown of Adults with Account at a Formal Financial Institution (% by region)



Source: Demirguc-Kunt and Klapper (2012). Note: MENA = Middle East and North Africa; SSA = sub-Saharan Africa; SA = South Asia; LAC = Latin America and the Caribbean; ECA = Europe and Central Asia; EAP = East Asia and the Pacific

In addition, a look at the landscape of micro, small, and medium enterprises (MSMEs) also paints a stark picture of lack of access to finance. The International Finance Corporation (IFC) and McKinsey & Company estimate that there are 365–445 million informal and formal MSMEs in developing countries and that 70 percent of them do not have access to financial institutions (Chironga et al. 2012). Moreover, 80 percent of these MSMEs are estimated to be informal micro, very small, or small businesses.

Global and national policy makers have recognized the importance of addressing this unfinished agenda. G-20 leaders have made financial inclusion a key pillar of their development strategy. The global financial Standard-Setting Bodies (SSBs) increasingly recognize the explicit risks associated with financial exclusion and have started to incorporate the importance of financial inclusion in their work. At the national level, as of year-end 2012, 37 countries representing a population of more than 1.7 billion people have made explicit commitments to domestic financial inclusion strategies under the auspices of the Alliance for Financial Inclusion (AFI) because they recognize the importance of inclusive, local financial systems for economic and social progress in their countries. This political tailwind, combined with continued business model innovations and increasingly better understanding of how poor people use financial services, has set a powerful stage to successfully tackle the largely unfinished agenda.

2. CGAP's Vision, Mission, and Role

2A. CGAP's Vision

The large majority of the global poor typically lives and works in the informal economy. The poor are, by necessity, active managers of their financial lives, but they typically remain excluded from formal financial services. As a result, they are forced to rely on available informal mechanisms, which can often be unreliable and very expensive. Against this backdrop, CGAP shares the powerful and broad vision for financial inclusion that has emerged among global and national policy makers, practitioners, and the development community:

> **Our vision is a world where everyone can access and effectively use the financial services they need to improve their lives.**

This vision captures key elements of the intended nature and purpose of inclusive financial markets:

i. "… everyone …" CGAP's focus on the poor means a focus on inclusion with a broad range of appropriate products that reach all, including informal small businesses. It does not mean developing separate financial markets for the poor.

ii. "… can access and effectively use financial services they need…" To attract poor customers, formal financial services must be superior in value to the informal services with which they compete, in terms of suitability, reliability, and cost. We believe that this can be largely achieved. The goal is ultimately to offer lower cost alternatives to enable informed choices and effective use.

iii. "… to improve their lives." Financial services are a means to an end. They can help families invest in and run sustainable livelihoods, build assets, manage risks, smooth consumption, and provide the peace of mind crucial for future planning. For CGAP and the broader donor community that uses subsidized capital to spur market development, it is of foundational importance that access and use of quality financial services ultimately lead to increased economic well-being and opportunity and decreased vulnerability.

This vision statement is deliberately focused on the end-user—the individual, the household, or the small business. However, an inclusive financial market clearly goes beyond the end-user to include supply-side providers and infrastructure, as well as an enabling and protective policy environment. For CGAP and the broader donor community, approaching inclusive market development from all these angles is central to the ultimate goal of helping poor households in the informal economy improve their lives.

2B. CGAP's Mission and Role

CGAP has the following mission:

> **Our mission is to improve the lives of poor people by spurring innovations and advancing knowledge and solutions that promote responsible and inclusive financial markets**.

CGAP's objective is to help poor households, particularly those in the informal economy, improve their lives. These households have wide-ranging financial services needs, and CGAP believes that these needs are most effectively met through inclusive and responsible financial markets. CGAP's role is to advance and accelerate development of these financial markets by working on frontier issues, which when unlocked have the greatest potential to deliver high-quality financial services that benefit a growing number of those who are currently unserved or underserved. (See Box 2.)

This role has important implications for CGAP's work. First, CGAP should pursue a global learning agenda and a portfolio of high-impact initiatives that purposefully evolve over time as they adapt to changing market developments. Second, a key CGAP objective is to crowd-in private, social, and public sector entities as appropriate. Third, CGAP's work must continue to align with the two central purposes of subsidized catalytic capital in the promotion of inclusive market development: (*i*) generation of open knowledge, open data, and related practical insights of a public good nature, and (*ii*) private and social sector experimentations that demonstrate viable product and business model innovations. A fourth implication is that CGAP's success should be assessed in terms of achieving ex-ante articulated contributions toward prioritized market development outcomes on the path toward full financial inclusion.

Box 2. Highlights of CGAP IV Evaluation Results

In September 2011, the CGAP Executive Committee commissioned a mid-term evaluation of CGAP's performance during its current phase (FY2009–FY2013). The evaluation focused on CGAP's strategic relevance, development effectiveness, efficiency, and accountability. Key findings of the evaluation include the following:

- CGAP has been very effective in creating and sharing practically relevant knowledge to advance access to financial services for the poor. Ninety-eight percent of surveyed members agreed or strongly agreed that CGAP is a leading source of information related to advancing financial services for the poor.
- CGAP has influenced some valued changes in the behaviors and practices of financial service providers, policy makers, and CGAP member donors:
  - Many financial service providers have changed policies and practices in line with CGAP's advice.
  - CGAP is highly valued for its contributions to global-level policy-setting discussions on financial inclusion.
  - It has played a significant role in the development of policy frameworks for branchless banking in numerous countries.
  - It has played an important role in promoting responsible finance, especially consumer protection.
  - CGAP has an important influence, beyond its members, with regard to transparency on funding.
- CGAP has played an important role in demonstrating the potential for new technologies and approaches to serve the poor and help them "graduate" out of extreme poverty.
  - It has developed a number of viable models for financial services for the poor, several of which are ready to be adopted by mainstream financial institutions.

2C. CGAP's Engagement Model

The CGAP system is a global partnership of development practitioners that share the objective of advancing financial access for the poor by pooling ideas and targeting market development efforts of common priority. CGAP members and their staff who work on the issues and collectively set CGAP's overall agenda are at the core of this shared aspiration. The Executive Committee serves as a Board and comprises CGAP-member representatives and at-large practitioners. Operational staff members develop and drive the agreed work program.

As a public good at the frontier of a responsible market development effort, CGAP focuses on generating practically relevant knowledge and insights and explicitly works toward influencing a broad range of actors to act on these insights. The pursuit of high-potential impact issues typically follows a cycle of identifying emerging challenges and opportunities, generating demonstration success and proofs of concept, synthesizing and sharing insights, and working toward adoption and replication by market makers. Throughout this cycle, CGAP works with the actors most relevant to the issue. The specific engagement model depends on the nature of the issue and its audiences and ranges from relatively broad (e.g., foundational research that aims at reaching broad audiences) to relatively narrow (e.g., supporting specific policy-making bodies with evidence-based advice).

Consistent with CGAP's role as a public good at the frontier of responsible market development and the objective to crowd-in others, CGAP's work program is always pursued in partnership. The partners and the nature of the partnership vary depending on the requirements for each major area of work and the related engagement model. For example, for more foundational work around understanding clients and their needs, partners include development think tanks and applied researchers. For experiments around product and business model innovation, partners are financial services providers. For developing and documenting policy and regulatory innovations, partners are policy bodies at the global and national levels. With the successful arrival of financial inclusion on the global policy arena, a number of important organizations have emerged that provide platforms for important leaders and constituencies, and CGAP works in close partnership with them to maximize the collective impact against common objectives. Global partner organizations include AFI (a network of southern financial inclusion policy makers) and the Global Partnership for Financial Inclusion (GPFI) created by the G-20. CGAP's work also explicitly informs and complements the financial inclusion work of the World Bank Group (WBG), where CGAP is housed, which focuses on in-country replication and scaling of successful government policies through International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) and private-sector approaches through IFC.

While operating as a global organization, CGAP has regional teams and six locally based, part-time regional representatives (in Abidjan, Nairobi, Dhaka, Beirut, Singapore, and Moscow) that help advance CGAP's core thematic priority areas at a local and regional level. The regional team structure deepens outreach and advocacy efforts, facilitates the collection of local market intelligence, and enables the integration of local priorities into CGAP's global agenda. The independent Center for Global Development (CGD) recently evaluated the governance of a number of global development partnerships of considerable size and prominence, such as the Global Alliance for Vaccines and Immunizations and the Consultative Group for International Agricultural Research. CGD included CGAP despite its much smaller size and gave it the highest marks for its partnering governance structure and effective execution (Bezanson and Isenman 2012).

The next section lays out each strategic theme's overall objectives and the more specific nature of the engagement model, which includes an articulation of key partnerships as well as key approaches (e.g., community-of-practice building, foundational research, demonstrations projects, or facilitation of standard development).

Because of the broader range of financial services needs of the poor, the large number of different providers required to meet these needs, the different sets of policy makers who have made inclusive growth an overarching priority, and the diverse set of donors and social investors willing to provide catalytic funding for market development, the concept of "financial inclusion" has many overlapping contributors with different legacies and cultures. The CGAP system has more touch points than most across this new and broader space given its long-standing, overarching mission and mandate. The CGAP system is determined to put these touch points at the service of the ultimate objective of improving people's live by advancing financial access for the poor and its evolving priorities.

2D. CGAP's Contribution to the Evolving Financial Inclusion Landscape

The past 15 years have witnessed breakthroughs, important new learning, and dramatic expansion of the financial inclusion landscape and range of players. The field initially focused on microcredit, broadened first to microfinance, then to access to finance, and most recently to financial inclusion. CGAP has continuously and purposefully influenced, shaped, and adapted to this evolution (see Table 1).

In the mid-1990s when the still-nascent field of microcredit focused on addressing the credit needs of the poor. CGAP helped prove the concept of microcredit by supporting early experimentation by social entrepreneurs in the developing world, creating peer-learning opportunities, training, technical guides, and tools, and advocating more broadly for a sustainable approach to the provision of financial services for the poor. In the late 1990s and early 2000s, the industry focused on scaling up the evolving microcredit model, and CGAP helped professionalize the sector. CGAP built consensus around good practice standards, provided guidance on aid effectiveness, and created transparency and new data sources, such as the disclosure guidelines for financial reporting and Microfinance Information Exchange (MIX), which was eventually spun off into an independent entity. During this period, CGAP also launched its aid effectiveness initiative in microfinance to showcase how public subsidies could best support a diverse range of providers in offering diverse financial services and products. This period also marked the beginning of a global conversation around the policy and regulatory preconditions for sustainable micofinance.

By the mid-2000s, the field had begun to recognize the broader range of financial services needs of the poor and began to work more broadly on microfinance. In this period, CGAP supported innovations by nontraditional players and developments in the policy environment to offer new services. CGAP was a leader in working with commercial banks that were trying to down-scale and reach lower income customer segments, and it launched its microinsurance working group that eventually spun off into the Micro-insurance Network.

By the late 2000s, it was clear that the cost of service for the typically very low-value financial transactions of the poor was a major hurdle, in particular for service to remote areas. The field focused on access to finance, and CGAP was an early leader in providing targeted support to business model innovations using technology and generating and disseminating knowledge on branchless banking (and its regulation) as a solution to the cost challenges in earlier business models. As global and national policy makers began to realize the importance of more inclusive financial markets that reach a larger share of its citizenry, the focus shifted to a broader understanding of financial inclusion, responsibly delivered and with greater linkages to the mainstream financial system and mainstream players. CGAP was a leader in helping the traditional microfinance sector develop a meaningful responsible finance agenda and was early in its support to global and national policy makers, for example in the G-20 context, as they turned their attention to building inclusive financial markets.

As the scope and breadth of the field evolved as new insights were gained and horizons expanded, the fundamental idea has remained constant: Help poor families and informal small businesses realize their economic potential, and manage their risks by giving them access to the financial services they need to manage their lives—services that most people in the developed world take for granted.

Table 1. CGAP's Evolution

	Focus	Main Contributions to Field	Selected Exits of CGAP Initiatives
Phase I (1995–1998)	• Help prove concept of microcredit • Advocate for sustainable approach	• Demonstration grants to promising MFIs • Technical tools and training for MFIs	
Phase II (1999–2003)	• Help professionalize sector	• Good practice standards and Consensus Guidelines (Pink Book, Regulation and Supervision of MFIs, etc.) • Regional training programs for MFI managers • Promotion of transparency through MIX data/Web site, CGAP-IDB Rating Fund • Aid Effectiveness Initiative • CGAP Funder Training	• Stopped direct grants to MFIs for capacity-building and recapitalizing • De-emphasized technical tools for MFIs
Phase III (2004–2008)	• Broaden range of services and providers and crowding-in social investors	• Partnerships with different types of providers (self-help groups, commercial banks (RAS), etc.) • Savings Initiative • Micro-Insurance Working Group • Pro-Poor Innovation Challenge (PPIC) Fund • Graduation Program • Pilot testing of SmartAid • Standards and market intelligence for social investors (MIV Reporting Guidelines, MIV survey, etc.)	• Spun off MIX • CGAP–IDB Rating Fund taken up by partners such as IDB and EU • Most regional training centers closed, and MFI training taken up by other trainers using CGAP curriculum • Micro-Insurance Working Group spun off into Micro-insurance Network • Donor peer reviews and country-level effectiveness and accountability reviews completed • Financial Transparency Awards program ended after successfully demonstrating best practices
Phase IV (2009–2013)	• Scale/expand access through lower cost delivery • Advance responsible finance • Enable regulatory environments	• Crowd-in industry globally toward technology-enabled business models • Foundational guidance on consumer protection/branchless banking policy • Support to national and supranational policy makers, including the G-20 • Grants to promote technology-enabled innovative experiments • Standards and guidance for responsible finance (PIIFs, etc.) • Client-centered design work	• Information Systems Fund (for MFIs) closed after lessons compiled into Technical Guide • PPIC wound down after funding broad range of experimental products and services targeted at extremely poor and underserved segments by MFIs/NGOs • Financial Inclusion Regulatory Center handed over to Boston University • De-emphasized branchless banking country-specific diagnostics after extracting globally relevant lessons • Funder Training conducted by ITC/ILO

3. CGAP Five-Year Strategic Priorities

In recent years, momentum has been building for a still more concerted effort toward full financial inclusion. The original microcredit revolution demonstrated that the poor are bankable and can be served in a sustainable fashion at scale. Since then, we have deepened our understanding to recognize that poor households and small businesses in the informal economy need a full range of financial services and that we need a broader set of providers to deliver against that need.

Today, as awareness and aspirations begin to align, several powerful trends have converged to bring us to an exciting inflection point, with great potential to advance financial inclusion:

- There is an evolving understanding of the needs, preferences, and behaviors of poor households, particularly those in the informal economy, who are active managers of their financial lives, but whose needs are not yet adequately met by formal financial service providers.
- Financial services providers who, not least spurred by the entrance of nontraditional players such as mobile money providers, have an interest in reaching low-income and poor populations, but often do not know how to translate demand-side insights into viable products and delivery models.
- Global and national policy makers want to advance financial inclusion (witness the specific public financial inclusion commitments of the Maya Declaration by 37 countries representing a population of 1.7 billion people), but they are faced with demands on their time and resources that compete with the inclusion agenda.
- The global community of donors believes in responsible market development and is willing to provide catalytic, subsidized capital, but it needs to redefine its role in the broader financial inclusion context.

These converging forces represent an important opportunity to achieve significant advances toward full financial inclusion. Supporting the growing momentum to include millions of economically active low-income and poor people in the financial system is both an opportunity and an imperative.

In this context, CGAP proposes five priority areas for its next phase: (*i*) understanding demand to effectively deliver for the poor, (*ii*) advancing financial innovation for smallholder families, (*iii*) developing robust country-level provider ecosystems, (iv) building an enabling and protective policy environment globally, and (v) promoting effective and responsible funding for financial inclusion. For each of the priority areas we sought to answer the following questions:

- Why is CGAP working in this area?
- What are we trying to achieve? What are the strategic outcomes to which we aspire?
- How will we work in these areas? What is our engagement model?

- Taking into account the difficulty of establishing direct causal connections, how will we know if we are succeeding? How will we track impact?
- What are the key risks and how do we mitigate them?

CGAP's proposed results framework for the next five years also reflects CGAP's mission and role within its priority areas. The results framework proposes three levels of accountability: (*i*) global progress on access and usage of financial services for the poor, (*ii*) progress on achieving the specific strategic outcomes articulated ex-ante for CGAP V, and (*iii*) ongoing CGAP relevance, sustainability, and accountability as an institution in serving the global financial inclusion community. (See Section 5 for more details on CGAP V's results framework and monitoring and evaluation processes.)

3A. Understanding Demand to Effectively Deliver for the Poor

CGAP strives to ensure that clients are at the center of financial inclusion by demonstrating how financial service providers can be more client-centric and by improving global data on financial inclusion so that its impact is better understood.

Current Context. Over the past 30 years, there has been great success in developing institutions able to reach significant numbers of financially excluded people. Diverse players offer financial services to poor and low-income people and small businesses, including banks, NGOs, credit unions, nonbank financial institutions, and rural banks. Nontraditional actors, such as mobile network operators (MNOs), and retailers, are increasingly involved in providing financial services to the poor, with different intensities and commitment levels across markets.

Nevertheless, 75 percent of working-age poor adults remain excluded from financial services. There is clearly a mismatch between the demand for financial services and their supply. A major reason for this mismatch is the lack of attention on effectively sourcing and translating information on poor people's financial needs, behaviors, and preferences into a better service offering. The focus has been on products—often one product (microcredit) to one client segment (microentrepreneurs)—rather than listening to poor people and offering solutions to meet their complex and evolving financial services needs over their lifetimes.

To ensure that access to financial services improves the lives of poor, low-income and underserved people, financial inclusion must be client-centric. Client-centricity is about providing financial solutions based on a deep understanding of poor people's needs, preferences, and behaviors. This will require a shift from a transactional approach (i.e., narrow focus on selling a product to a customer) to a relationship approach (i.e., broad focus on understanding the dynamic needs and behaviors of customers over their lifecycle). To meet this goal, three challenges must be addressed:

- **Improving the understanding of how diverse client segments (across income, livelihood, gender, and age) interact with a suite of financial services**. It is likely that the interplay of a suite of products, and not just one specific product in isolation, will ultimately achieve positive impact. There is a need to deepen knowledge on what drives customer behavior, uptake, and usage—and how an approach that stresses a portfolio of services best meets the varied needs of poor people over their lifecycle.

- **Increasing the commitment, incentives, and capacity of financial service providers to be client-centric**. Many providers have difficulty dedicating human, financial, and management resources to anything other than running their core business. Providers must be convinced of the business value of enhancing their offerings to the poor. However, even when there is a commitment to serve poor customers, cost structures for serving harder-to-reach client segments or for certain products may be prohibitive and lower-cost innovations are needed. In addition, some providers may not have the capacity to effectively design and implement new products for scale. Finally, beyond delivering sustainable services based on an understanding of poor people's needs and behaviors, providers may need to re-orient their entire operating model to focus on the overall customer experience, including customer service, human resources, and management information systems.
- **Understanding impacts**. Understanding the social/welfare and economic benefits of financial inclusion at the individual, enterprise, and broader economy levels is critically important. This will require harmonized data and a broader evidence base generated through a mix of research methods for understanding the means by which responsible financial services and delivery mechanisms interact with people's behaviors and biases. It will also require more evidence on how inclusive financial systems contribute to stability, employment, and growth. Better understanding impacts will also help clarify what impact can and should be expected from access to financial services.

CGAP V Strategic Outcomes

Strategic Outcome 1: Providers systematically source and translate client-specific insights into a suite of quality and sustainable financial services at scale.

To make a tangible difference to clients, CGAP's demand work must link with the supply side that is ultimately responsible for effective delivery. CGAP's work on this outcome responds to the challenge of increasing the commitment, incentives, and capacity of providers to viably source and translate insights into a better service offering.

Building Foundational Knowledge on Clients. CGAP will engage with grant funders and researchers to promote research on the knowledge gaps that, if addressed, can unlock barriers to more effective delivery, particularly with respect to underserved client segments and the trade-offs clients make in using informal or formal financial services when both are available. CGAP's key comparative advantage in this area is connecting industry players to those that can conduct and fund research and to synthesize research results once they are available. In the early phases of the CGAP V strategy period, CGAP will directly conduct or commission research to help crowd-in others. Over time, our role will increasingly focus on highlighting key research questions for the industry to study.

Translating Clients Insights into Better Service Offerings. CGAP will facilitate application of client-centric approaches by creating globally representative demonstration cases through work with innovative financial service providers that target poor and low-income populations. We will prioritize experimentation with providers to help them understand the poor as a customer segment and to develop a range of financial services. Our engagement with these providers will focus on (*i*) improving understanding of actual and potential clients through creative sourcing of customer insights (including work to help predict behaviors and responses to new offerings) and developing new service delivery options through rapid prototyping and feedback loops; (*ii*) designing effective systems, processes, and procedures to deliver on client-centricity; and (*iii*) testing and demonstrating the business case for client-centricity to generate business value in the long term. We will distill learning into global knowledge and easily accessible tools that will be broadly disseminated to providers. CGAP will also seek to engender behavior change among providers by influencing development finance institutions (DFIs) and social investors so that they structure their investments and fulfill their governance role in ways that incentivize client-centricity. DFIs and social investors are also effective partners thorough which CGAP can work to ensure that research insights are connected to providers on the ground.

Focusing on Underserved Client Segments. Through targeted collaboration with selected providers, funders, researchers, and other stakeholders, CGAP will help generate global knowledge on how to reach specific population segments effectively. Priority segments include smallholder families (see Section 3B), the extreme poor, youth, and small businesses. Further segmentation work during the course of the strategy period may identify additional high-priority segments (such as women), especially as others pick up work on segments that have matured in CGAP's portfolio.

Illustrative activities include the following:

- Creating guidance on tools for customer segmentation, sourcing customer insights, and product prototyping. CGAP will draw from the best of what is done in mainstream finance and other industries to offer new approaches to providers serving poor and low-income people. Guidance will be provided primarily through learning events, publications, multimedia approaches, and in the case of targeted engagement with selected financial service providers, strategic advisory services.

- Helping test and build the business case for client-centric service offerings. CGAP will examine the client and product-level pathways for profitability for financial service providers who are focused on deepening their service offerings in response to the needs of actual and potential clients. We will also analyze the performance of providers that deliver client-responsive offerings.

- Using knowledge generated to identify and serve specific client segments. CGAP will continue to build on specific activities with the extreme poor, youth, and small businesses to push the frontier on underserved client segments and learn through experimentation. For example, there are new opportunities for helping significant numbers of poor people graduate out of extreme poverty by integrating the "graduation approach" into the social protection programs of governments and larger funders. Work on the CGAP–Ford Foundation Graduation Program will evolve from supporting pilot programs to bringing the learning to policy makers and social protection staff as well as conducting more cost-benefit research. Better meeting the financial needs of small businesses can help them grow and be a source of much-needed employment. We will continue work on understanding the subsegments of the large number of informal small businesses and how to meet their diverse needs, which extend well beyond short-term credit. The demographic realities of certain countries, notably in Africa, call for identifying the role that finance can play in helping youth manage major life transitions, including getting an education and starting to work. Our work will explore both the public policy and business case for offering youth financial services.

Strategic Outcome 2: Financial inclusion stakeholders use harmonized, high-quality global data and impact research to make evidence-based decisions that advance responsible financial access to the poor.

Obtaining good data on financial inclusion is a first step in improving the empirical evidence base on the impact of financial access. Over the years, there have been many expectations of access to finance (e.g., enterprise growth, poverty alleviation, women's empowerment, etc.) and many assumptions about the impact that comes from having access. What is needed now is better evidence, particularly with respect to usage and quality, using various and different research methods that can both point to changes resulting from access to finance as well as to why these changes occur. Improving the understanding of the impact of access to financial services as well as how and when impact is achieved will help improve the products and services on offer. Moreover, it will allow for setting clearer and more realistic expectations of the role of finance as one, among others, tool in the development tool box.

Data Architecture and Frontier Indicators. Before data are available for use, three steps are needed—definition and harmonization of data standards, collection of data, and analysis of data. CGAP's comparative advantage lies in the first and third steps, while other market actors, including national statistics offices, are better positioned to collect data. Working in partnership with the increasing number of actors in the data space, CGAP will prioritize client-level data work on evolving standards to cover different types of financial services, alternative delivery channels, and approaches to guide segmentation of data by income levels and other demographic characteristics.

In helping define and harmonize data standards, CGAP will work closely with, *inter alia*, the G-20 GPFI Data and Measurement Sub-Group, the AFI Working Group on Data and Measurement, and the Social Performance Task Force (SPTF). CGAP will continue to collaborate with important data collectors, including MIX, the World Bank, and IMF to help coordinate and rationalize data collection efforts. In this era of big data, CGAP is well-positioned to connect different global data sources, contribute to harmonizing standards, work on developing standards on frontier issues, and draw on multiple data efforts to present a more comprehensive picture of financial inclusion through analytical work that will be presented via conferences and publications and integrated in all relevant communications efforts, including media outreach.

Improving the Impact Evidence Base. CGAP will work on three fronts to improve the evidence base on the impact of financial inclusion. First, we will work with the financial inclusion community concerned about impact to help set priorities for the research agenda in this domain, develop hypotheses, and catalyze funders and researchers to test these hypotheses. To this end, we will also use our convening ability to facilitate dialogue among researchers, practitioners, funders, and policy makers so that researchers pursue practically relevant research using a range of research methods. Second, we will help synthesize research findings and widely share new evidence with practitioners through accessible Web-based platforms so that research findings can help inform future business and policy decisions. Third, CGAP will generate guidance on approaches and tools for funders and policy makers to enhance how they structure their monitoring and evaluation approaches in ways that are rigorous as well as pragmatic.

Illustrative activities include the following:

- Supporting and participating in the GPFI Data and Measurement subgroup and SPTF. CGAP's involvement in both these bodies will center on harmonizing standards that are relevant for a broad section of actors in the financial inclusion space, as well as on pushing for progress on service quality indicators and meaningful ways to support the implementation of the universal standards for social performance management. CGAP will continue to leverage the IMF's Financial Access Survey to present and analyze data on the state of financial inclusion.

- Sharing the emerging impact evidence. CGAP will collaborate closely with researchers to synthesize their findings. We will also facilitate discussions with funders so that they can internalize evidence as it emerges and design independent, rigorous, and cost-effective evaluation approaches for their own portfolios. Using the best evidence available and our multiple knowledge products and convening ability, CGAP will articulate the role that finance plays in improving poor people's well-being and economic opportunities and reducing their vulnerability.

Engagement Model. The heart of CGAP's engagement model for this work is helping to build a community of practice to accelerate momentum toward a client-centric approach to financial inclusion. We will strive to have broad-based membership from a cross-section of financial inclusion stakeholders, including providers, policy makers, funders, and researchers. The community of practice will engage through a Web platform, convening events, and social media.

CGAP will seek to bring together a vibrant community to do the following:

- **Synthesize knowledge**. Different parts of the community can help take stock of the rich capital of information that already exists and figure out how it can be transformed into more accessible and actionable knowledge.
- **Identify knowledge gaps and generate new knowledge**. Forging a shared vision about the priority research agenda will help focus energy on the most practically relevant questions; to get there, a frank and constructive exchange is needed between researchers and industry players.
- **Debate and discuss ideas**. Members of the community of practice will share new ideas, pose questions, ask for feedback, and probe the implications of research findings, including how they can act on the evidence to improve programming and policies.

Another important aspect of our engagement model will be direct work with providers to create demonstration effects. We will create a portfolio comprised of a select number of providers, concentrated in three or four globally representative markets. As appropriate, CGAP will partner with other funders or market players for this experimentation.

Tracking Progress. For our broad engagement to build a community of practice that is committed to putting clients at the heart of financial inclusion, we will develop measures that quantify CGAP's influence in communicating on (*i*) approaches to how providers can reorient themselves to be more client-centric, and (*ii*) the emerging financial inclusion data standards and impact evidence. Interviews and surveys capturing perceptions of CGAP's contribution to progress on these two fronts will also be conducted. For our more targeted work with providers, we will track whether providers with whom we have a memorandum of understanding have rolled out new or enhanced products successfully, reached out effectively to a new client segment, or enhanced organizational processes to improve the customer experience. Finally, we will work with industry associations and conveners (e.g., AFI, MIX's financial inclusion information clearinghouse) to develop metrics that track use of financial inclusion data.

Risks

Tension between Drive for Evidence and Need for Innovation. By definition, innovation requires risk-taking, being nimble, and forging new paths in the face of uncertainty. The push for evidence may create a tension in the opposite direction, given demands for precise indicators, certainty of outcomes, and measurement, often in the short term. CGAP will encourage the use of impact research for improving purposes, not just proving purposes. We believe that the key starting point to any intervention is creating a clear theory of change that can be updated and revised as learning occurs. We will also place research results within context so that the discussion focuses on what we are learning, what kinds of changes are happening or not, and why.

Changing the Institutional Processes and Leadership Needed to Achieve Client-Centricity (beyond New Product Development) is Challenging. The clearest path to addressing the traditional supply-side orientation might be to focus on developing and offering a range of new financial products. Yet, client-centricity goes far beyond products. It often requires the reorientation of many aspects of an institution, which is very difficult to do. CGAP will mitigate this risk by advocating for starting with understanding poor people's needs, preferences, and behaviors, rather than starting with products. We will also take a long-term, organizational approach that identifies the parts of the institution that matter to client-centricity, from governance and management information systems to marketing.

3B. Financial Innovation for Smallholder Families

CGAP's work with smallholder families would focus on ensuring that underserved smallholder segments have access to (and actively use) financial services tailored to the full array of their financial needs.

Current Context. CGAP's client orientation (see Section 3A) naturally leads to a greater focus on the largest global segment of those living on less than US$2 a day: smallholder families. With its direct poverty focus and link to the broader development goal of food security, innovative financial services for these families represent an important priority CGAP intends to explore.

There are, according to the International Fund for Agricultural Development (IFAD), at least 500 million smallholder farming households (representing 2.5 billion people) relying to various degrees on agricultural production (including crops, livestock, and fisheries) for their livelihoods. Women make up 43 percent of the agricultural work force. The food price crisis of 2007–2008 caused the development community and national governments to refocus on agriculture within the context of the broader development goal of food security—with a focus on smallholder households buoyed by recent evidence demonstrating an inverse relationship between farm size and productivity (Carletto, Savastano, and Zezza 2011; Eastwood, Lipton, and Newell 2004). Building on this momentum, developing-country governments made agriculture a higher priority, political alliances like the G-20 recognized its role in poverty alleviation, organizations like the Alliance for a Green Revolution in Africa focused on smallholder households to reduce hunger and poverty, and research centers began exploring ways that smallholder households could use mechanisms such as payments for environmental services to adapt to climate change.

Many CGAP members are among those that continue to make notable contributions to agricultural finance and livelihoods development in rural areas, including Agence Française de Développement, Ford Foundation, Gesellschaft für Internationale Zusammenarbeit, IFAD, IFC, KfW, U.S. Agency for International Development, and the World Bank. Joint initiatives (such as

Including Capacity Building in Rural Finance [CABFIN] and Making Finance Work for Africa's Task Force on Agricultural Finance) provide coordinated platforms for research and dialogue. From each of these efforts, the message is clear: while there is renewed private-sector interest and an increasing number of promising financial services approaches, the unmet financial services needs of smallholder families remains enormous.

CGAP Focus. Smallholder families are not only agricultural producers, they are also consumers who have diverse financial needs. Most smallholder families typically earn income from a variety of nonagricultural sources, including the sale of labor and off-farm enterprising. Indeed, some studies (Jayne 2012) indicate that the poorest smallholder families earn the highest percentage of their income from nonagricultural sources. Consequently, as CGAP explores financial innovation for smallholder families, CGAP proposes to adopt a holistic approach to understanding the wide array of challenging financial services needs of these farming households.

> **Finance for agricultural activities**. Meeting the financial needs of smallholder agricultural activities is challenging. Agriculture is by nature seasonal, with time passing between cash outflows and inflows. Farming depends on the quality of the resource base, it is vulnerable to pests and spoilage, and it is exposed to the volatility of weather and prices. Financial services providers face risk and liquidity management challenges because farmers in the same area generally borrow at the same time and often do the same activities, and therefore, they are often exposed to the same risks. Financial services providers need to understand both agriculture and finance—and they often require greater incentives to work in remote rural areas, where sparse populations and weak infrastructure result in higher transaction costs. As a result, traditional microfinance has not reached the vast majority of smallholder farmers. (Recent advances based on supply-chain finance have primarily benefitted the relatively small number of smallholder farmers in tight value-chains with agribusinesses, marketing companies, or processors.)
>
> **Other financial needs**. The irregular cash flows and risks of agriculture activities further complicate an already complex system of household cash management where agriculture is not always the only or most important source of income. Consequently, CGAP will also focus on identifying and meeting those financial needs of smallholder families that are not directly related to agricultural production, including off-farm enterprising and household consumption. While these needs are not unique to smallholder families, they often are uniquely impacted by family reliance on agricultural activities. For example, in smallholder communities in parts of western Kenya, school fees are due soon after the maize crop is harvested, forcing parents to sell their produce when the market is still flooded and prices are low. Ironically, the financial product these smallholder families may need most is not tied to agricultural at all, but instead to education: an educational loan that would allow them to store their harvest until market prices increase.

Segmentation. Segmentation of smallholder families can help differentiate the demand for financial services among these households and can help develop tailored solutions. Drawing from a rich array of studies, CGAP proposes segmentation based on the way smallholder families engage with markets (which is often a function of land size and whether staple or cash crops are grown). Not all poor smallholder families fit clearly within only one of the three segments. But segmentation does allow a greater understanding of the fact that different segments have different financial needs, and that this variety in demand cannot be met by the same suite of financial products, terms of service, or service providers.

Noncommercial smallholder families. The approximately 300 million noncommercial smallholder families are generally considered subsistence farmers, and they are among the poorest households. They typically farm to contribute to their own sustenance and survival, not as a vocation or strategic business choice. Agricultural production is concentrated in staple crops (e.g., cereals, roots, and tubers) that are consumed by the household. Irregular, small amounts of surplus might be sold in an informal, local market, and there is limited or no connection to a structured value chain. Noncommercial smallholder families are generally net buyers of food (supplementing their own production) and sellers of labor, which limits their ability to produce. Very few purchased inputs and little mechanization are used, and outputs are relatively low. Access to land, technology, education, markets, and information about weather or agricultural production are very limited, leaving the household highly vulnerable to income and other shocks. These households, which are among the poorest, rely on informal financial mechanisms and tools (e.g., local savings and loan groups) for basic financial services.

Commercial smallholder households in loose value chains. The approximately 165 million commercial smallholder households in loose value chains have access to somewhat more land and generate some level of surplus to sell in a market. However, lack of storage often forces these families to sell when prices are low only to repurchase the same crop for consumption later when prices are higher. Their crop mix tends to focus on staples, which they sell through loosely structured markets and value chains, but it may also include some higher value cash crops (e.g., sugar, tea, coffee, oilseeds, fibers, energy crops). Commercial smallholder households in loose value chains have limited access to inputs, information about weather, markets, and prices, but because they have some access to more effective agricultural practices and financial services, they are in a relatively more resilient position than noncommercial smallholders households.

Commercial smallholder households in tight value chains. The approximately 35 million commercial smallholder households in tight value chains, broadly speaking, have access to at least two hectares of land and approach farming as a business—growing crops that generate a reliable output to sell in local or regional markets and/or through highly structured value chains. Because of their relationship with these relatively more organized value chains, farmers in this segment have access to improved seeds, inputs, agricultural and weather information, finance, and secure markets and prices. Their crop mix emphasizes higher value crops but is likely to also include staple crops. In terms of access to finance, they interact with a relatively wider range of financial services from both informal and formal financial service providers than do the other two segments.

CGAP V Strategic Outcomes

Strategic Outcome 1: Stakeholders accurately understand the financial services needs of underserved smallholder segments (particularly noncommercial smallholder families) as both agricultural producers and consumers with other sources of income.

Compounding the challenges of serving smallholder families is a lack of information. While progress has been made with the more easily served segments (farmers with easier access to tight value chains), relatively little is known about the financial services needs of harder-to-reach segments. There is general agreement that the first step in effective product design is developing a detailed understanding of the intended client segment and their specific constellation of needs, preferences, and behaviors.

Consequently, CGAP's initial explorations in this area would prioritize targeted demand research on poor smallholder households, working with donors and researchers to accurately identify the full spectrum of financial needs of underserved smallholder families (as both agricultural producers and consumers with other sources of income).

Illustrative activities include the following:

- Coordinate "financial diaries." Collecting financial diaries specifically from noncommercial smallholder families would be a key step toward better understanding the financial needs of this segment—and ultimately designing more tailored products and developing more effective policy interventions. First, CGAP would conduct a literature review on the activities and income streams of noncommercial smallholder families, focusing on their use of informal financing mechanisms. Working in a select number of countries, with a focus on Africa, CGAP would sponsor and coordinate financial diaries in smallholder households to better understand how these households finance their farming and nonfarming activities and manage their overall financial portfolios.
- Further segmentation. Noncommercial smallholder families, even as a segment of the broader category of smallholder households, still include 300 million farmers and their dependents. Further segmentation—based, for example, crop or region, number of harvests, or ratio of land size to dependents—would allow a fuller understanding of the needs of various subsegments and perhaps identify those subsegments most capable of transitioning to commercial smallholder households. To this end, CGAP would engage in a range of qualitative and quantitative research tools, including customer surveys, focus groups, and in-depth household interviews.

Strategic Outcome 2: Service providers and other stakeholders develop and pilot more effective financial services and products tailored to enhance the value proposition for smallholder families, focusing on improving their risk management ability and lowering provider delivery costs through the use of technology.

The information gap is not just about demand but also about supply. There is little synthesized knowledge about the products that exist for smallholder households, the institutions that provide these products, why some promising ideas never succeeded, and why some were embraced outside the intended target population. To develop and pilot more tailored products and services, CGAP would work with donors, investors, and private-sector financial and agricultural institutions that are already actively serving such households to extract globally applicable lessons from their experiences. The focus would be to identify the strengths and weaknesses of existing products and delivery channels and to facilitate the availability of performance indicators on a public platform. We would also work with MNOs and other private-sector actors to identify not only how technology can help drive down costs to more effectively reach noncommercial smallholder families, but also to explore how different types of providers can collectively reach these households more effectively.

Illustrative activities include the following:

- Business model and product performance analysis. Anecdotal evidence highlights the perceived success of various approaches in financing noncommercial smallholder families, but there is little comparative and actionable information. CGAP would synthesize and analyze the performance of business models and products that reach underserved smallholder families. Working with partners, CGAP would then identify promising solutions and how they can reach scale and be expanded to other markets. CGAP will profile innovative financial products and models (e.g., harvest savings accounts).
- Global landscaping of branchless banking in the agricultural context. Despite considerable advancement in understanding branchless banking business models, there is little understanding of how such models are used (or could be used) to meet the specific needs of poor smallholder households. CGAP would gather evidence on how these models impact the lives of various smallholder communities around the world, identifying key obstacles to their uptake and possible solutions. (See Section 3C for a broader discussion of CGAP's engagement in Digital Finance Plus.)

Engagement Model. Consistent with CGAP's broader client agenda, CGAP's engagement with smallholder families would focus on building a global community of practice aimed at more effectively meeting the financial services needs of today's underserved smallholder farmers. To build this community, CGAP would collaborate closely with the broad array of stakeholders: (*i*) private-sector actors, including financial service providers, agricultural players, and new actors (such as MNOs), that offer applications relevant to agriculture; (*ii*) development organizations that have relevant portfolios; and (*iii*) national and supranational policy makers and regulators. CGAP would convene these stakeholders around important questions relevant to innovative finance for smallholder families to build momentum behind ideas and provide a platform to synthesize and advance the most current thinking in the sector.

This community of practice aims to build a foundational knowledge base that can be used for more targeted interventions through knowledge products, policy guidance, and other deliverables. This knowledge base would also serve as a global public good that enables the sector to more effectively serve target households and allows CGAP to support core audiences by monitoring and analyzing global trends and highlighting opportunities and caveats to core stakeholders. In addition, this knowledge base would help identify areas ripe for deeper engagements, such as promotion of specific products (e.g., bundling credit with insurance) or the targeting of a specific region (e.g., sub-Saharan Africa, which has a large population of smallholder farmers). As a cross-cutting theme, innovative finance for smallholder families would integrate expertise of other CGAP teams, particularly those focused on clients, business model innovation, and policy.

Tracking Progress. A key indicator of impact would be evidence of greater understanding among stakeholders of (*i*) the financial services needs of the least served smallholder households and (*ii*) the strengths and weaknesses of current products (including branchless banking) serving these smallholder households. CGAP would track interim indicators that reflect this greater understanding. These would include (*i*) self-reported increases in awareness, knowledge, capacity, and commitment; (*ii*) access and usage of CGAP materials, resources, and tools; and (*iii*) ratings of CGAP research, engagements, and resources as high quality and relevant. Another key indicator would be evidence of a community of practice regularly engaging to exchange information and share lessons learned.

Risks

Barriers to Segmentation. There are 300 million noncommercial smallholder farms globally. Further segmentation is needed to more effectively meet their financial needs; however, there are many variables that may make effective segmentation difficult. These variables include national policies, crop type, climate, number of harvests, the limited availability of quality data, and the nature and extent of agricultural reliance. To be able to yield lessons learned with wide-scale impact, CGAP would prioritize research on client needs and work with a broad array of stakeholders to arrive at meaningful segmentation.

Complementary Services. Financial services, particularly with respect to smallholder families, constitute only one tool among many that are collectively necessary to alleviate poverty. Complementary services (known as extension services) such as agricultural training, availability of storage facilities, and access to seeds and fertilizer may ultimately define whether financial services can play their important role in reducing poverty. CGAP would actively work with providers of complementary services to ensure that financial services can reach their full potential.

3C. Developing Robust Provider Ecosystems

CGAP's work in developing provider ecosystems focuses on promoting technology-enabled, low-cost innovative business models that reach the poor at scale enabled by policy makers and regulators working together to promote client access and usage.

Current Context. Different products present different risks and delivery challenges, and it is unlikely that a single class of service providers will effectively provide all the products poor people need. A key challenge is how to create the broader interconnected ecosystem of market actors and infrastructure needed for safe and efficient product delivery to the poor. Innovative, lower cost business models, often through the introduction of technology (such as automatic teller machines [ATMs], point of sale [POS] devices, and mobile phones), lower the transaction costs for specific financial products. For example, the main challenge of payment services, and often for savings products, is an affordable funds transfer mechanism. Leveraging established infrastructure and distribution channels (such as retail locations as agents) through technology platforms can directly overcome this challenge by lowering the cost of delivery. However, for other products, such as credit and insurance, the challenges are not directly addressed by a cheaper payment mechanism. For credit, the key challenge is how to manage credit risk and repayments when extending credit to poor people, who typically do not have collateral. For insurance, the key challenge is risk-pooling and managing adverse selection and moral hazard. Therefore, while technology-enabled business models do address certain barriers in the delivery of financial services to the poor, the frontier now is to help create a provider ecosystem that seamlessly reaches more poor people with a broader range of services at lower costs. As CGAP's work progresses, it will be important to develop a perspective on the end-state of technology-enabled payment systems, possibly as a public utility or provided by the private sector or a combination of both.

Some progress has been made over the past few years in innovative, low-cost payment services. In some specific markets, early evidence suggests that technology-enabled business models can reduce transaction costs as part of providing financial services for the poor. Transaction costs for clients are, on average, 50 percent cheaper at agent locations than at ATMs and branches. Among the Kenyan population outside Nairobi, the share of people with very low incomes (below US$1.25 a day) using M-PESA reached 72 percent in 2011. Globally, there are more than 120 technology-enabled businesses, reaching 197 million clients, 27 of these businesses already serve more than 1 million clients.

Despite glimpses of progress and widespread excitement about technology-enabled business models, these payments services have yet to prove sustainable. Few deployments have reached scale, registered users often remain inactive, and the business case for these multiple-party ventures remains tenuous. An ecosystem involving multiple providers is needed. Most financial products have delivery, intermediation, and risk mitigation challenges that often can be more efficiently managed through a number of specialized institutions acting together rather than one institution acting alone.

Some of the key barriers that the sector must overcome to produce robust and sustainable provider ecosystems include the following:

- **Improving effectiveness of provider deployments.** An ecosystem that includes a diverse set of providers, both private and public, requires a shared business model based on the contributions of each provider's core competencies or at least a realization of what certain providers can and cannot do. Real challenges exist around forging effective partnerships between these ecosystem providers, such as understanding the role of new players like retailers. Commercial strategies can also falter, as they relate to topics such as marketing and pricing. Businesses need guidance to properly align their target client's value proposition to a viable business case. Fundamental aspects of this business, such as building strong agent networks, continue to be important. Emerging innovations, from the use of data to new client interfaces, have the potential to change many aspects in the way business models develop. Given these continued challenges and opportunities, the catalytic role of philanthropic capital continues to be important to mitigate risks and promote experimentation.

- **Improving policy for market development.** As markets develop, regulatory issues have moved beyond providing guidance on the basic framework: customer identification, use of agents, and the role of nonbanks. A second generation of regulatory issues threatens the development of these markets: interoperability, fair access to telecommunications and distribution channels, competition policy, and fraud and risk management. (See Section 3D for a broader discussion of CGAP's engagement on consumer protection.) Governments have an important role to play in promoting financial inclusion by developing infrastructure and driving transaction volumes such as through government-to-person (G2P) payments.

- **Improving the linkages between technology-enabled payment systems and other key sectors of the economy.** Technology-enabled payment systems introduce new business models (such as pay-as-you-go models) that can potentially ease financing for technology-driven innovations that improve poor people's quality of life, such as clean energy, agriculture, education, water and sanitation, transportation, and health.

CGAP V Strategic Outcomes

Strategic Outcome 1: Private- and public-sector businesses (banks, microfinance institutions [MFIs], MNOs, agent aggregators, ATM and POS networks, retailers, third-party payment providers, switches, and others) form country-level ecosystems that offer low-cost payment services that enable a wider range of client-responsive financial services for the poor at scale.

CGAP's work under this outcome responds to the challenge of improving the effectiveness of provider deployments. CGAP will create a learning agenda based on emerging knowledge gaps as outlined below. Through research and technical assistance, we will improve the effectiveness of innovative financial services providers, and by looking across markets we will extract globally relevant lessons for the broader industry. More effective deployments will have demonstration effects within these markets and regions, crowding in other stakeholders.

Some key focus areas of our learning agenda include the following:

- **Business models**. Effective business models rely on partnerships among a wide range of providers and a deep understanding of what drives the profitability of products. In coordination with IFC and others, we will work to provide a framework to understand partnership arrangements and provide guidance to industry on how to develop partnerships that are more likely to succeed in delivering financial services to low-income people. Deeper data analytics, such as using an MNO's voice data coupled with mobile money customer and transaction data, can enable providers to identify potential new subscribers to target through marketing as well as identify potential corridors around which to build agent networks.

- **Data for product development**. Data can also be used in the provision of new products and services for poor people. Data generated from mobile phones cover a large number of poor people and may be the only source of aggregate and easily understandable data on the poor. The use of these data can be powerful under certain conditions to create a more complete profile of a potential client base and expand the range of viable products and services offered.

- **Digital finance plus**. CGAP will also explore emerging issues around the upside potential for product innovations using technology-enabled payment channels for broader development goals. Sectors that can benefit from these innovations include clean energy, education, water and sanitation, transportation, health, and agriculture (see Section 3B for a discussion of CGAP's engagement with smallholder families). For example, payment systems that make small-value transactions more affordable can play a useful role in facilitating efficient management of fee collection for renewable energy products and services (e.g., solar lanterns) on a pay-per-use basis. We will work to determine how existing G2P payment schemes, mobile payment systems, and other cost-reducing technological innovations can be leveraged to facilitate payments in other developmental areas. This has the potential to increase the welfare of poor people by providing access to these additional services.

Overall, CGAP's work will push the frontier in how a provider ecosystem can leverage technology-enabled payment systems to more adequately enable a broader range of services at lower costs. Innovative uses of data can begin to solve the challenge of information asymmetry in credit. Social aggregation through network effects of payment systems can begin to solve the risk-pooling challenge in insurance. Business models that focus on various developmental objectives can begin to be built on these new payments rails. Meanwhile, more sophistication in payments, transfers, and savings can be offered to poor clients.

Illustrative activities include the following:

- Partnering with key providers to generate insights on business model partnerships, the role of retailers, the use of data analytics, strategies for increasing activation, the role of G2P payments in building sustainable business models, a better understanding of market factors, and other relevant topics. CGAP will also partner with organizations such as GSMA, the Grameen Foundation, and the Gates Foundation on our work around partnerships, business models, and customer activation. These insights will be used to strengthen the sustainability of these new business models and generate lessons for a global audience.

- Applying research findings to specific businesses, providing direct advice to partners, and providing seed funding for experimentation. We will use the lessons learned from global implementations and research to inform the activities of our partners and to find and support new innovations being tested in these markets.

- Investigating and promoting the use of new payment systems to promote broader development goals. We will learn from the new businesses that have recently launched to leverage innovative payment systems for clean energy, water and sanitation, agriculture, and health. With this knowledge, we will work to expand such models to other markets through partners active in the field.

Strategic Outcome 2: National regulators (financial sector, telecommunications, competition, and others) and policy makers understand the economic rationale of multi-stakeholder

provider ecosystems and issue regulations and adopt policies that appropriately balance innovation and risk.

CGAP's work under this outcome responds to the challenge of improving policy for market development. Innovations that reach the poor sustainably and at scale require a full set of public and private providers that are involved in the distribution and provision of financial services. Many of these providers are not the traditional set of financial institutions with which regulators engage, and consequently, there is often a tendency to over-regulate, sometimes stifling innovation. Regulators need to understand the economic rationale of these businesses to strike the right balance. Because regulators typically do not interact with these new players, it is often difficult for them to understand these new businesses and their potential risks and benefits. We will work with regulators and policy makers to share insights into these businesses and build the complete picture of the emerging ecosystem. (See Section 3D for a broader discussion of CGAP's engagement with national and supranational policy makers.)

Illustrative activities include the following:

- Partnering with key providers to understand regulatory issues that can improve or inhibit the development of business models. Some emerging issues include interoperability, fair access to telecommunications and distribution channels, competition policy, and fraud and risk management. These insights will add to the knowledge of regulatory barriers and solutions that can be shared globally.

- Advising regulators at a national level to understand and address the regulatory obstacles that exist for providers. Working with partners such as AFI, CGAP can play an important convening role to bring regulators in more direct and regular contact with private- and public-sector providers. This dialogue will facilitate regulatory openness to the issues that may be holding back innovation.

- Advising various government ministries on policies that can advance financial inclusion, such as the Ministry of Social Development on G2P payments. As governments become more deliberate about articulating a financial inclusion strategy, this role will become increasingly important. Having a coherent strategy across ministries is critical for the smooth implementation of government policies. CGAP, in partnership with the World Bank Social Protection Unit and United Nations Capital Development Fund, can play an important convening role and can also act on opportunities for financial inclusion coming out of various parts of a government.

Engagement Model. CGAP's engagement model is to collaborate primarily with a cross-section of service providers to identify key barriers to ecosystem development and to experiment with innovations aimed at overcoming these barriers. Being "close to the action" helps us learn first-hand what issues industry actors face, how challenges are approached, and what lessons can be extracted. It also helps shape and guide our learning agenda in favor of knowledge that is relevant across industry players as well across relevant country-level regulators and policy makers. In addition, at a global level, this knowledge informs the work of international SSBs and helps the development community better target catalytic fundings.

CGAP relies on a “portfolio” of countries to allow for deeper long-term engagements. These countries represent a mix of opportunities for learning from and influencing market developments and policy approaches. Influence is important for demonstration cases and success stories. For example, Brazil provides an opportunity to learn about G2P and the role of banks, whereas Bangladesh provides an opportunity to influence the development of the G2P sector. Mexico presents insights on innovation in regulation, whereas Ghana offers an opportunity to influence the way regulations develop.

Tracking Progress. A key indicator of success will be the number of poor users of CGAP-supported, technology-enabled business models. (Based on CGAP-commissioned demand-side surveys, 40 percent of total subscribers are poor; this benchmark will be periodically updated through partner surveys.) This indicator is also intended to track the total number of poor users in implementations where CGAP has had direct involvement. This would include relationships where CGAP has had a substantive contribution, such as funding, technical assistance, or research based on that implementation’s data and experience. Another indicator of success will be the number of policy documents (recommendations, guidelines, drafts) by national or global entities that reflect CGAP guidance. Such guidance may come from work done at the “market level” with regulators, such as branchless banking diagnostics or direct branchless banking regulatory advice to regulators and policy makers. CGAP will regularly track its influence on regulatory and policy developments.

Risks

Not Reaching the Poor. Early adopters of new technologies tend *not* to be the poor clients that CGAP aims to reach. The young and the upper classes have traditionally been those that begin using mobile phones and other new devices for financial services. Even more importantly, early adopters have a much higher likelihood of already being banked. However, research has begun to show that overtime these services do begin to be used by the poor. For example, M-PESA is now being used by 75 percent of Kenyans living on less than US$1.25 a day, up from 20 percent in 2008. To mitigate the risk of not reaching the poor, we will work with our partners to target products down-market to the poor and unbanked, and to better align product offering to the real financial needs of the poor.

Operational Risks. Any new business model carries significant operational risks, and technology-enabled innovative business models are no exception. Implementing projects effectively is always more complicated than it appears on paper. CGAP has seen first-hand the challenges providers have had in delivering on complex components of these new business models from agent networks to partnerships to customer communication. These challenges often translate into slower-than-expected results, risking a lack of momentum and loss of confidence among stakeholders, particularly donors and governments. CGAP attempts to mitigate this risk by working with a diverse set of partners across various markets to improve the likelihood of successful implementations. Nevertheless, our learning agenda still greatly benefits from the lessons that emerge from challenging environments where results lag behind expectations.

3D. Building an Enabling and Protective Policy Environment Globally

CGAP's policy agenda focuses on promoting policy and regulatory frameworks for financial inclusion (*i*) that balance innovation with stability, integrity, and protection and (*ii*) that protect consumers and are responsive to evolving risks.

Current Context. The policy environment can be the "make or break" factor in closing the financial access gap for poor households and businesses around the world, affecting both the business case for providers and the value proposition of formal financial services for target customers. In recent years, a growing number of governments—many of them in lower income countries with higher current levels of financial exclusion—have made financial inclusion a policy priority, as evidenced by the 37 countries that have made financial inclusion commitments pursuant to the Maya Declaration. These country-level actors are complemented by the emergence of new global actors such as the G-20's GPFI and AFI, and heightened attention from SSBs. This has opened the door for significant global-level policy shifts that support financial inclusion, which would positively impact the millions of underserved and unbanked. However, despite this growing interest in financial inclusion, there remain significant gaps in the knowledge and capacity of many policy makers that are best positioned to bring about these pro-inclusion policy shifts.

A key challenge is to facilitate a fundamentally different perspective on the role of financial inclusion in broader financial policy making. Traditionally, global SSBs and country-level policy makers have focused on the goals of financial stability, financial integrity, and to a more limited extent financial consumer protection, with many holding a view that progress made on financial inclusion would be at the expense of the stability and integrity of the financial system. The global financial crisis and instability in certain markets driven by problems in retail-level financial services—coupled with an increasing number of governments committed to financial inclusion alongside the focus on stability and integrity—have called into question the traditional view of financial-sector policy. This creates an imperative to explore and better understand the linkages among financial inclusion and the other objectives of financial policy, regulation, and supervision: stability, integrity, and consumer protection. Increased evidence, guidance, and compelling articulation of these linkages are critical to shift the thinking of country-level policy makers, standard-setters, and emerging global actors. This change in perspective is a prerequisite for policy-maker action that creates more enabling and protective policy environments for underserved and unbanked customers.

CGAP V Strategic Outcomes

Strategic Outcome 1: Policy makers—both domestically and through global bodies—are engaged and supported to create policy environments that promote financial inclusion, while optimizing its linkages with financial stability, financial integrity, and financial consumer protection (I-SIP), minimizing negative trade-offs and maximizing positive synergies.

There is growing appreciation by both global and country-level policy makers that financial inclusion (I) can support the traditional financial sector policy objectives of financial stability (S), integrity (I), and consumer protection (P). This does not happen automatically, however, and failures on one of the I-SIP policy objectives can compromise the others—as was seen dramatically in the subprime crises in the United States and United Kingdom, where increased financial inclusion without adequate consumer protection had radically destabilizing effects.

Today, policy makers do not have good tools to analyze and *optimize* the linkages among the I-SIP policy objectives. Without such tools, policy makers may find themselves unable to act, even when they recognize the potential value of the I-SIP approach to inform their policy making. Expanded research and engagement is needed on each of the objectives (as well the many subobjectives that contribute to them, such as competition among providers in the case of inclusion). But particular emphasis is needed on the linkages among them, which will help policy makers understand and optimize such linkages and will play a critical role in policy-maker efforts to build enabling and protective policy environments for responsible market development.

Elaborating on and refining the I-SIP methodological approach offers an opportunity to engage collaboratively with the very country-level policy makers who will benefit most from improved understanding of how to achieve each objective and how inclusion can support stability, integrity, and protection. Working with partners such as the World Bank, CGAP will engage in both *ex ante* and *ex post* analysis of specific financial inclusion policy interventions at the country level—exploring in the case of *ex post* analysis the extent to which stability, integrity, and consumer protection were considered in policy formulation and implementation, and in the case of *ex ante* analysis, factoring consideration of the stability, integrity, and protection implications of the proposed intervention into its design and implementation. In each case, the analysis of the interplay between a given inclusion intervention and the other three policy objectives will offer insights for policy makers to translate into maximal synergies and minimal negative trade-offs in their further financial inclusion efforts.

These insights will improve the evidence base for standards and guidance from the SSBs, which in turn will translate into better policy at the country level (given the many incentives countries have to follow such guidance, whether or not they are members of the SSB in question). Early positive feedback from the most relevant SSBs on the I-SIP methodological approach, shared through CGAP's role as lead implementing partner for the GPFI workstream on SSBs, confirms strong interest.

Illustrative activities include the following:

- Conducting multiple country-level research exercises on the linkages among the I-SIP objectives, aimed at elaborating and refining the methodological approach, as well as bolstering the evidence base for policy approaches likely to serve all four policy objectives. We will distill key findings from this research into practically applicable analytical tools and other knowledge products for the target audiences, including both specific SSBs and country-level policy makers (with an emphasis on developing practical approaches for optimizing I-SIP linkages in low and lower income, lower capacity and lower financial-access countries, for which I-SIP insights from higher income, higher financial-inclusion countries are unlikely to translate without attention to the specificities of the countries in question).

- Providing strategic advisory support and "learn by doing" technical assistance to policy makers around reform initiatives involving financial inclusion and one or more of the other I-SIP policy objectives (with a focus on advisory engagements that will contribute to other CGAP learning agendas, such as policy and regulation for robust provider ecosystems). Selection of financial inclusion interventions should consider the full range of approaches being employed, from those widely pursued (including more coercive approaches and those aimed at formalization of informal and semi-formal providers) to approaches innovating at the frontiers of responsible market development. This work, undertaken in partnership with organizations such as AFI, can be complemented by the development of "how to" training and knowledge products, recognizing that improved policy making without improved implementation has little impact.

- Convening and participating in SSB gatherings and workstreams where financial inclusion issues of cross-cutting relevance are considered (such as the periodic industry consultations by the Financial Action Task Force [FATF] and the Basel Consultative Group's new financial inclusion workstream). This work can be complemented by country-level engagement to contribute to the evidence base available to the SSBs.

Strategic Outcome 2: Effective and proportionate consumer-protection measures that benefit poorer and excluded customer segments are implemented in diverse countries, complementing initiatives that strengthen responsible provider behavior and consumer financial capability.

The global financial crisis and the over-indebtedness crises in several base-of-the-pyramid credit markets have reinforced the understanding that financial inclusion must be *responsible*. This is resulting in a policy shift in many countries toward greater consumer protections and rights, as well as increased recognition of the particular challenges faced by low-income, financially excluded, or underserved consumers. Clearly this shift must be considered in the context of the other three I-SIP policy objectives—yet it warrants deeper consideration on a standalone basis, particularly to ensure the client-centric orientation envisioned broadly for CGAP's future strategy.

Putting in place policy and regulatory regimes through improved transparency, provider practices, and recourse options that effectively protect consumers, including those who are more vulnerable, benefits financial inclusion by (*i*) preventing consumer harm, such as over-indebtedness; (*ii*) building trust in the financial sector; and (*iii*) reinforcing uptake and usage. These policy frameworks and specific measures must be geared to the realities of limited policy-maker staff capacity and resources in countries with high levels of financial exclusion.

Designing consumer protection policy that is effective for low-income consumers in countries with lower levels of financial inclusion requires deeper understanding of two key areas: (*i*) the unique characteristics, experiences, and challenges these consumers face and (*ii*) the evolving risks that they confront in the market, as they use new and innovative products and channels. In many developing countries, policy makers have limited understanding of the specific characteristics of consumers and providers in low-end markets. Many of these consumers are coming into the formal financial system through nontraditional means, such as third-party agents, mobile banking, or electronic receipt of government transfers (e.g., G2P payments). They will become "financially included" only if the policy environment enables these innovative approaches and business models, the consumer-related risks of which are inevitably less well-established. Some of the emerging risks raised by these innovative business models include those related to third-party nonbank agents handling funds and potentially selling products beyond just payments, fraud, sharing increased amounts of personal data through new channels and platforms with potentially insufficient safeguards, and lack of consumer awareness of how to use new channels and unfamiliar products in a safe manner. These issues create a need for effective consumer protection strategies that identify, assess, and mitigate emerging risks while supporting innovative approaches and business models. As a practical matter, policy makers also will need to address the reality of limitations of regulatory coverage: the lead financial regulator typically has direct authority over only a subset of the types of provider in the market.

Illustrative activities include the following:

- Advocating for practical, evidence-based policy making, developing robust yet flexible policy guidance for regulators in lower-income and lower access markets, and translating the guidance into practical tools and training. A hallmark of this work is its strong focus on the unique characteristics of unbanked and underserved consumers, so that consumer protection measures are informed by their experiences and behavior, safeguard their interests effectively, and progressively build their trust in formal providers and products. CGAP will partner with country-level regulators to facilitate practical consumer research to inform consumer protection policy making, as well as enlisting the support of behavioral researchers. Advisory engagements will be carefully selected to focus on the priorities for low-income client segments and contribute practical evidence for the global learning agenda. CGAP will develop pragmatic market monitoring and supervision techniques and training (e.g., a consumer protection module for the CGAP–Toronto Centre supervisor training program) to address the challenge of moving beyond regulation to effective implementation.

- Using existing CGAP networks and key partners, such as AFI, to facilitate dialogue between regulators and industry (globally, regionally, and in selected markets) on (*i*) evolving consumer risks, (e.g., fraud, other types of financial crime, data handling, privacy) and (*ii*) adequacy of provider and industry consumer protection solutions. This dialogue would promote increased understanding around the existing gaps in consumer protection and help policy makers develop and implement effective but inclusion-friendly policy responses to fill the gaps that are identified.

- Supporting and participating in the consumer protection activities of the SSBs and other global actors (e.g., G-20 and GPFI, the newly formalized FinCoNet network of consumer protection supervisors, Organisation for Economic Co-operation and Development's (OECD's) Financial Consumer Protection Task Force, Consumers International, and AFI's Consumer Empowerment and Market Conduct Working Group). The global knowledge products and bottom-up, country-level solutions that result will help ensure that any guidance and good practices take into account the specific nature of earlier stage markets and the resource constraints of those charged with ensuring responsible market development. CGAP's official representation in these global processes will also enable us to advocate for creation of channels for direct engagement with developing countries and their growing experience in this area, so that the global guidance that results is consistent with inclusion goals and market realities.

Engagement Model. The broad range of stakeholders engaged around financial inclusion policy calls for an approach where country and regional research and experimentation informs global standards and guidance and vice versa. There has been increased direct exchange in recent years between countries on financial inclusion policy that includes both South–South and South–North relationships. Additionally, SSBs are extending their outreach efforts beyond their members and drawing more on evidence from developing country and emerging markets. These bilateral and multilateral exchanges afford channels by which CGAP's knowledge and experience from one market can be shared and applied in other similar contexts. To maximize impact in this evolving context, CGAP must engage with policy makers and standard-setting both through global bodies and at the country level. Recognizing CGAP's comparative advantage as a knowledge generator and content provider, CGAP collaborates with global convening bodies, such as GPFI, OECD, AFI, and SSBs, to leverage our knowledge and technical expertise in complement to their networks of policy makers and convening power.

In the case of the I-SIP objectives, CGAP will focus on promoting at the global level the reflection of I-SIP linkages in the standards and guidance of those SSBs that most influence national policy makers, such as the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, FATF, the International Association of Deposit Insurers, and the International Association of Insurance Supervisors. These five SSBs are all increasingly engaged on the subject of financial inclusion, and others—notably the Financial Stability Board—are paying more attention to the subject and could be moved further with results coming out of I-SIP-related work. Given that SSB standards and guidance determine the basic framework within which country-level financial authorities make policy, direct engagement with the SSBs will facilitate the adoption of financially inclusive policies and regulations in the countries with the highest concentration of financially excluded households and businesses. However, learning and experimentation will also occur in *diverse* country contexts—not only to build the evidence base on key synergies and tradeoffs, but also to permit analysis of how widely differing market contexts affect these insights. Along with low- and lower-middle-income countries, CGAP engagement will include countries active with the SSBs (including their regional and consultative bodies), whose stories with I-SIP linkages—both positive and negative—will inform thinking, and ultimately standards and guidance, at the global level as well.

In the case of financial consumer protection, work at the country level over the next few years is likely to outpace that at the global level. CGAP is therefore focusing on helping the relevant policy makers and regulators—particularly those in low-access countries—best serve excluded or underserved households and businesses with regulatory frameworks that reflect the particular issues relevant to this population. We choose those engagements that offer learning or demonstration opportunities for developing practical, evidence-based guidance on the consumer protection topics that are most often identified as priorities by our partners. In the near and midterm, these include disclosure and recourse mechanisms that work for poor consumers, evolving consumer risks from new business models and technology applications, and appropriate incentives for responsible lending and service provision. Advancing knowledge and practice on these three priorities requires an approach that is flexible and fast-changing to keep pace with new products, channels, and related risks, while being informed by consumer and behavioral research on what is distinctive about users and products in low-access environments.

Tracking Progress. A key indicator of impact will be the number of policy documents (e.g., recommendations, guidelines, drafts) by national or global entities that reflect CGAP guidance.

A second indicator of success will be the number of policy-making entities that source information by engaging the poor in their policy work. CGAP will track interim indicators that reflect policy makers' strengthened understanding and capacity to adopt enabling and protective policy and regulatory frameworks, which include (*i*) self-reported increases in awareness, knowledge, capacity, and commitment; (*ii*) access and usage of CGAP materials, resources, and tools; and (*iii*) ratings of CGAP engagements and resources as high quality and relevant.

Risks

Situation-Specific I-SIP Linkages. The complex and situation-specific nature of linkages among financial inclusion and the other I-SIP policy objectives (stability, integrity and protection)—as well as the broader policy objectives that countries prioritize to which the I-SIP objectives are intended to contribute—may prevent distillation of this research into simple, actionable messages, in particular for low-income and lower capacity countries, leading to inaction on the part of policy makers. On the other hand, there is also a risk that policy makers use "copy-and-paste" approaches that are ineffective and counter-productive in promoting financial inclusion. To mitigate these risks, CGAP will selectively pursue engagements that call for progressively simpler articulation of the I-SIP linkages, as well as track and disseminate among policy-makers examples of the success of tailored approaches and failures of copy-and-paste approaches.

Rapid Evolution of Consumer Risks. Financial service innovation is fast-paced in many developing countries and emerging markets. Policy makers and regulators that seek to promote a responsible marketplace are challenged to keep up. They must determine which risks have real negative consequences for financially excluded and underserved consumers and select an appropriate but inclusion-friendly response. *Ex ante* forecasting of potential customer benefits and downsides is difficult to do with precision, particularly since many of the consumers are new, their behavior is less predictable and understood, and provider responses will vary depending on their assessment of the risks, their market position, and the cost and complexity of potential "fixes." To help ensure that CGAP's agenda remains relevant as markets evolve, we will help foster continuous dialogue between industry and regulators and feed in insights from consumer research that shed light on actual risks and how they can best be addressed.

Policy Measures May Have Unintended Negative Consequences for Innovation. Policy makers may respond to analysis and discussion of emerging risks in ways that restrict innovation and potentially limit responsible financial inclusion. While it is impossible to fully control the actions of individual policy makers and how they use CGAP knowledge products, an evidence-based approach will help identify a range of inclusion-friendly options and measured responses that analyze up-front and over time the compliance costs for industry costs as well as impacts on customer welfare and value.

3E. Promoting Effective and Responsible Funding for Financial Inclusion

CGAP's financial inclusion funding agenda focuses on helping donors and investors play a catalytic role in responsible market development through the provision of effective financing.

Current Context. The emergence of strong microfinance institutions that serve over 200 million clients has been an important success due in large part to the commitment of the development community. It demonstrated that the poor are bankable and can be served at scale in a financially sustainable fashion. With better understanding of the financial services needs of the poor, the donor and investor community is now looking for ways to achieve broader inclusion of the estimated 2.5 billion working-age adults that remain excluded from formal financial services.

With the initial success of crowding in others, particularly private providers and capital into the microcredit sector, questions emerge about the future role of donors and investors in advancing financial inclusion. How can donors and investors continue to add value? How can donors use their public resources or subsidies in a way that ensures their support contributes to overall development objectives? How can investors invest in financial service providers without distorting the incentive of such providers to raise capital from local sources (such as deposit mobilization or local investors)? Still, 80 percent of public funding is committed to on-lending by institutions for mostly microentrepreneur credit. Many donors and investors are looking into the broader impact investing world as a way to build on the success of leveraging public subsidies for advancing financial inclusion (e.g., SME finance) and other areas of development, such as agriculture, education, health, water and sanitation. A CGAP analysis indicates that as of December 2011, impact investing funds active in developing countries represented almost US$9 billion of assets under management. So far, over 70 percent of this funding remains focused on microfinance investments where the "asset class" is the most developed and where there is a more readily available pipeline for investment—albeit mostly for investment in financial institutions that extend microenterprise credit.

There is a need to move beyond supporting MFIs to supporting broader market development for financial services that reach the poor. Helping redress the mismatch of what the market needs versus where funding is allocated and making sure resources are catalytic for a responsible market development is at the core of CGAP's work. Countries around the world are at very different levels of development necessitating the need to be responsive and adaptive to a variety of country specific conditions. In some nascent markets, supporting the creation of new entrants into the financial system may be an appropriate funding strategy to demonstrate the commercial viability of serving poor market segments. In more developed markets, country priorities often shift and increasingly include a need to focus on advancing regulations to adapt to new technologies or helping to support innovative business models or delivery channels.

Donors and investors need to re-think not only what they support but how they support it. Different types of capital can contribute or harm markets depending on how it is structured. Donors and DFIs need to be cognizant of when and how different funding instruments (such as technical assistance, grants, debt, and equity) can create the conditions under which markets are strengthened to serve the needs of the poor.

While this shift toward market development is widely recognized among funders, there are competing internal pressures that make this shift challenging. For some donors, budget pressure has resulted in extensive cuts of program staff forcing them to use generalist staff to manage projects across different sectors. The net result is fewer technical experts managing financial inclusion projects. This staffing shift has come at a time when the vision of financial inclusion requires highly specialized expertise in technology, payment systems, market infrastructure, insurance, impact measurement and a host of other technical areas. Funders need support in how to leverage technical expertise.

Furthermore, cuts in program staffing have also resulted in fewer but larger multisectoral projects in which financial services represent only a small component. Donors need support on how to channel and structure these larger projects in such a way that does not dilute the lessons we have learned over the past 20 years.

The current political climate also requires donors and investors, particularly bilateral public funders, to more rigorously justify their support as domestic concerns are prioritized over development aid. This pressure often requires public donors and investors to more explicitly demonstrate the results of their efforts and how these lead to the outcomes for which they are held accountable by domestic constituents. Greater accountability is justified, but in this pursuit of evidence, results that are not easily measured or attributable to donor and DFI involvement may drop from the development agenda, risking the loss of support to what may be needed to advance financial inclusion. In order to effectively respond to their stakeholders, donors and DFIs need support in articulating what evidence is possible and how to collect it.

With the need to shift toward a market development approach, CGAP's role will also need to shift away from developing "best practices" to one which helps funders identify "emerging practices," in areas in which the industry has yet to develop deep or extensive expertise. These new "emerging practices" represent the modern version of donor guidelines, but adapted to a more rapidly evolving market and taking into account new technologies and innovation and different roles for different actors. CGAP will continue to promote standards for responsible funding and effectiveness that have been developed and agreed upon over time and add on new guidance on practices as they emerge as we learn lessons from good and bad experiences.

CGAP V Strategic Outcome

Strategic Outcome: Donors, DFIs and social investors play a catalytic role in providing appropriate financing for responsible market development.

To achieve effective and responsible funding for financial inclusion, CGAP will work with different funder segments to support their ability to play a catalytic role in market development.

Illustrative activities include the following:

- Building "consensus" on evolving role of funders and sharing learning on funding mechanisms through a process of peer learning and coordination among funders. Consultations with CGAP members and other stakeholders over the last year indicate that there is a common understanding that the role of funders in financial inclusion is evolving. However, there is no consensus yet around concrete behavior changes required and no guidance on funding models that are adapted to facilitate market development. CGAP will continue to engage with different funder segments to capture and facilitate knowledge exchange around emerging practices and will also intensify links with other global efforts on market development to facilitate mutual learning (e.g., MaFI Initiative supported by SEEP or the Donor Committee for Enterprise Development). In particular, CGAP aims to document lessons learned on different funding vehicles used to support market development, such as challenge funds, country-level market facilitators, or global facilitators. This learning agenda will feed the next generation of guidance for funders on how to support financial inclusion.

- Developing the next generation of guidance or “emerging practices” for funder support to financial inclusion. As our vision for financial inclusion has expanded, guidance and emerging practices on how to support market systems that integrate the poor must be updated and expanded to integrate lessons learned as well as new technologies, delivery channels and business models that serve the poor. This process of developing emerging practices has been ongoing through a process of funder coordination and peer learning. Moving forward, CGAP plans on integrating these emerging practices into an e-book that is a “living document” that can be updated regularly and easily accessed by donor and investor staff.

- Supporting internal systems, incentives and results measurement. While there are international standards on measuring the performance of microfinance institutions, standards on how to measure financial inclusion as a whole are only emerging. Current monitoring systems and incentive structures within funding agencies favor funding for institution building, rather than market development. As the focus shifts from building institutions to facilitating market development, new ways to measure results are needed. CGAP will work with funders and M&E experts to develop guidance on how to design M&E systems and incentive structures that favor market development and innovation, while at the same time produce the evidence needed to prove impact. CGAP will continue to invest in measurement tools, such as the SmartAid Self-Assessment Tool, that can help funders measure their own internal progress over time. CGAP will also explore the next generation of measurement, such as an “additionality index,” that can help identify how donors and investors can continue to add value.

- Researching funding flows and evidence on funding impact. Research on funding flows will remain a core area of CGAP’s work as it informs work with funders and helps improve transparency. Going forward, CGAP will adapt its research to a broader vision of financial inclusion:
  - *Funding for Financial Inclusion.* Working with donors and DFIs to identify how to develop internal monitoring mechanisms for identifying financial inclusion projects.
  - *Use of Funding Instruments.* This area of work will deepen research on how and when different funding instruments can either advance *or* hinder progress on financial inclusion given that one dollar in debt is not equivalent to one dollar in equity or grants. CGAP envisions dedicated research focusing on the role of equity, how to exit equity investments responsibly, and the use of grants for supporting capacity development at the policy, market infrastructure and retail level.
  - *Measuring Impact of Public Funding.* There is little evidence on whether public funding actually plays a catalytic role. CGAP will use country-level data to explore the role public funding has played in specific markets (e.g., Cambodia, Bolivia, Bosnia), with a focus on how well public funding has leveraged commercial funding as well as the impact on market development.

Engagement Model. CGAP’s approach prioritizes public funders and private foundations - the agencies that govern CGAP and with whom CGAP has the greatest leverage. However, CGAP will also reach out to social investors, an important ally in achieving the type of market development we aim to achieve. Public funding aims to crowd in private investment and our work with social investors will thus be focused on assessing and documenting evidence on public funding's ability to leverage private funding.

CGAP's approach in engaging with donors and investors must also reflect the comparative advantages of different segments of the funding community, as well as the instruments which they offer. CGAP believes that different funders are equipped with a set of instruments, strengths and internal constraints that must be taken into account when considering their additionality in supporting financial inclusion. Not every donor and investor dollar is the same. Technical assistance, grants, loans or equity investments potentially contribute to (or harm) financial markets in different ways. CGAP's future approach therefore centers on the following key segments:

- **Funders that provide direct technical assistance**. A few funders have the in-house expertise to provide direct technical support to both public and private sector actors engaged in creating responsible financial markets. These funders have a unique role to play in helping support knowledge creation and guidance on how to effectively structure and implement technical assistance. CGAP will work with these funders as partners in disseminating key emerging practices with their local stakeholders as well as helping to create guidance and lessons that can be shared more broadly with other funders.

- **Funders that provide grant funding.** To push the remaining frontiers in financial inclusion, funding is needed for innovation, research and development, and public goods. These areas require grant funding, but grants are only effective if they lead to sustainable solutions rather than market distortions. CGAP will work with funders to identify areas that need grant funding and share lessons on models that work.

- **Funders that offer loans to governments.** Loans to governments are not well adapted to fund retail financial services directly, though they are often used for this purpose. Some of these funds are channeled through apex institutions which have demonstrated mixed results. Nevertheless, funders providing loans to governments (typically the multilateral and regional development banks), potentially influence government policies. CGAP will work with funders that provide loans to governments to leverage their influence on policy and regulatory reforms and on helping countries achieve their financial inclusion objectives.

- **Funders with debt and equity.** Given their development mandate and their private sector approach, DFIs (with local and hard currency debt, equity, and quasi-equity) are key actors in responsible market development. They facilitate market development by investing in promising business models and thereby pave the way for private investment. Given that many microfinance institutions now have access to private investment, the role of DFIs in refinancing MFIs with loans is increasingly questioned. Additionally, equity has a special role in allowing businesses to leverage debt for growth. Equity investors can also use their role on the board to ensure responsible market development while maintaining a strong social mission. Going forward, DFIs can further develop markets by investing in innovative business models and private market infrastructure that advance financial inclusion. Working with DFIs to identify new business models which would benefit from their risk capital will be a priority for CGAP.

- **Social investors.** Similar to DFIs, social investors balance financial and social returns. They are an important ally in advancing responsible market development. CGAP will work with social investors that can contribute to financial inclusion by scaling up and investing in innovative business models that serve the poor. CGAP will also leverage its connections and work with investor groups, such as the Council of Microfinance Equity Funds (CMEF), the SPTF Social investor group, UN backed Principles for Responsible Investment (UNPRI) and Global Impact Investment Network (GIIN), to engage with the social investor community.

Tracking Progress. A key indicator of impact will be evidence of greater understanding and knowledge among funders of emerging practices and their catalytic role as measured by self-reported data on perception, knowledge, and attitudes, and assessments of CGAP engagements, resources, and tools. A second indicator of success will be evidence of behavior change and whether funders are shifting toward a market development approach. We will measure this change by tracking data on funding flows; a baseline will be established and targets will be set for the five years of CGAP V. A third indicator of impact will be evidence that funders are catalytic at the market level. We will measure market impact by measuring the allocation of funding at the country level and perceptions of key local stakeholders.

Risks

Working Effectively with Decentralized Entities. CGAP's proposed strategy envisions engagement with a wide array of funders, including international financial institutions (IFIs), such as the World Bank, the regional development banks, and IFAD. IFIs often have different departments that address financial services and can be highly decentralized with most decision making at the country level. Thus, CGAP's model of working primarily through focal points at the head-office level has limited impact on these larger entities, particularly with regard to influencing their nonfinancial sector departments and their country operations. Consequently, CGAP will reach beyond the focal points to other segments of these organizations by focusing on making knowledge, information, and expertise relevant to their specific needs and using the channels that these actors already access for information.

Moving Beyond Institution Building. CGAP focuses on working with funders to move beyond institution building as their main contribution to achieving financial inclusion. Some funding agencies, particularly those that offer debt to private actors, may find it difficult to adapt their internal mechanisms to focus on the broader market. CGAP will work to mitigate this potential risk by using evidence-based research to build consensus on the importance of market impact. We are prioritizing results measurement as this will strengthen the learning and communications on how market development can actually lead to the results for which donors and DFIs are accountable. Additionally, CGAP will incorporate activities that help address some of the internal obstacles that funding agencies face.

4. Knowledge Sharing and Community Building

CGAP creates and shares practically relevant knowledge that advances access to financial services for the poor. With a global learning agenda at the core, knowledge sharing and communications are central to everything we do, as reflected in the activities, engagement model, and indicators outlined earlier in this CGAP V strategy document. In the 17 years since its inception in 1995, CGAP established a strong publishing platform and brand. Building on this reputation, we have over the past years evolved our strategy to adapt to, and take advantage of, the new communications environment. Over the coming five years, CGAP will continue to capitalize on the shifting landscape of communications, using cutting-edge and emerging technologies and approaches to engage in dialogue, to promote knowledge, and to advocate for poor people whose financial service needs remain unmet.

Background: The New-Media Revolution. The new-media revolution is changing the way we communicate. The changing landscape of communications means that for the financial inclusion community, social media are no longer just part of a formal communications strategy, but increasingly part of how we engage with the world. With over a billion Facebook members, 200 million people on LinkedIn, and 250 million tweets a day, social media allow citizens to participate in conversations by creating and sharing knowledge.

The new-media revolution is not just a western phenomenon. It is a global revolution, and as broadband "always on" access spreads, it is set to change the developing world as much as the developed world. Mobile devices are rapidly overtaking all other means of accessing the Internet: more smartphones were sold in 2011 than PCs. Well over two-thirds of the world's 6 billion mobile phone owners live in developing countries. More people in Africa have a mobile phone than access to electricity. This shift in access to information and the sharing of knowledge has profound implications for the global development community. CGAP's own Web site data confirm this shift. Nigeria is far ahead of France, for example, in the numbers of people using iPads and iPhones or other smart phones to access cgap.org and the Microfinance Gateway.

Social media are pervasive and growing faster in developing countries than in the developed world. In the latest index of social engagement, the Philippines tops the chart, followed by Indonesia, Brazil, and India. Facebook's massive expansion in countries like Brazil, India, Mexico, and Vietnam suggest that social media must be figured into any advocacy strategy for development.

The Age of Participation. The new-media revolution is driving three key shifts in how knowledge is created and shared. First, in this new-media culture people no longer passively "consume" media but actively participate by creating content, in whatever form and on whatever scale. Rating a restaurant or consumer purchase, or "liking" an article, commenting on a blog post, or uploading a *YouTube* video becomes a form of participation in the age of new media. Citizen-generated content and the democratization of sources and channels of news and information mean that we are all content creators. The source of credibility—and influence—has shifted.

Second, people want it visual. This is seen in the rising popularity of video sites like *YouTube*, Pinterest pins, and Instagram photos. But it is also evident with data: data.worldbank.org launched in 2009 and doubled the World Bank's total Web traffic almost overnight. Third, today there is no wall between digital and print—and the flow between different media has changed the way we generate knowledge and content.

While print circulation has declined, traditional news media have started to deliver content through a range of platforms and have actually expanded their net daily audience. Readers continue to consume information—they just do it online. The amount of time readers spent online increased by 36 percent from 2010 to 2012 in the United Kingdom.

Implications for CGAP. Today, CGAP has built a fully integrated communications platform that uses the full range of tools, encompassing new media and social media—blogs, multimedia, live presentations, and online events, to maximize the impact of our work with financial institutions, other market actors, policy makers, and funders. We leverage staff through multiple partnerships, and strategic communications are integrated throughout the organization. We have increasingly built social engagement into our strategy, integrating blogs, social media, and social sharing of content.

We never publish just once. Everything appears in multiple media—as publications, blogs, Web articles, video, and audio. We leverage a range of channels and social sharing. And knowledge and content generation is no longer linear—as in an old-style publications stream—it goes in all directions as information is analyzed, and knowledge is shared.

We use a range of channels to reach and engage with new audiences and existing audiences in new ways, creating multiple entry points for users. We no longer speak to a technical audience *only* through written publications. Most of our videos, for example, have been downloaded five or six times as often as our top publications. But the technical value of the information in a publication and retention may be significantly greater. So we use the full range of tools at our disposal to engage and influence the conversation.

The Next Five Years. The focus of CGAP's communications strategy is to make content more accessible and to engage a widening community, much of which is based in developing countries. In 2012, responding to changes in the global communications environment, CGAP launched its new Web site (www.cgap.org) using cutting-edge mobile-responsive design. This new technology takes advantage of the surge in use of mobile devices for online access to make CGAP content easily accessible on a range of mobile devices. It was one of a number of features we built into the new site, including making publications available in e-pubs and Kindle formats for increased accessibility of content, particularly in low bandwidth countries. We also integrated social sharing, multimedia, and data visualization as part of our strategy to use emerging technologies to achieve CGAP's communications objectives. The new site provides multiple entry points to information in a variety of media, and the information architecture of the site, based on topics, allows users to experience content within a broader context through related content. Social sharing is integrated throughout the site, making it easy for users to share CGAP content, such as blog posts, as widely as possible. We also launched a data visualization tool on the site, as we see increasing importance in the use of data to tell the financial inclusion story.

The new Web site sits at the hub of an integrated multichannel communications platform that encompasses the Microfinance Gateway. Over the past 12 years, the Microfinance Gateway has established itself as the key resource for the global microfinance community, with a large global audience in English, French, Spanish, and Arabic and more than 5.5 million page views a year.

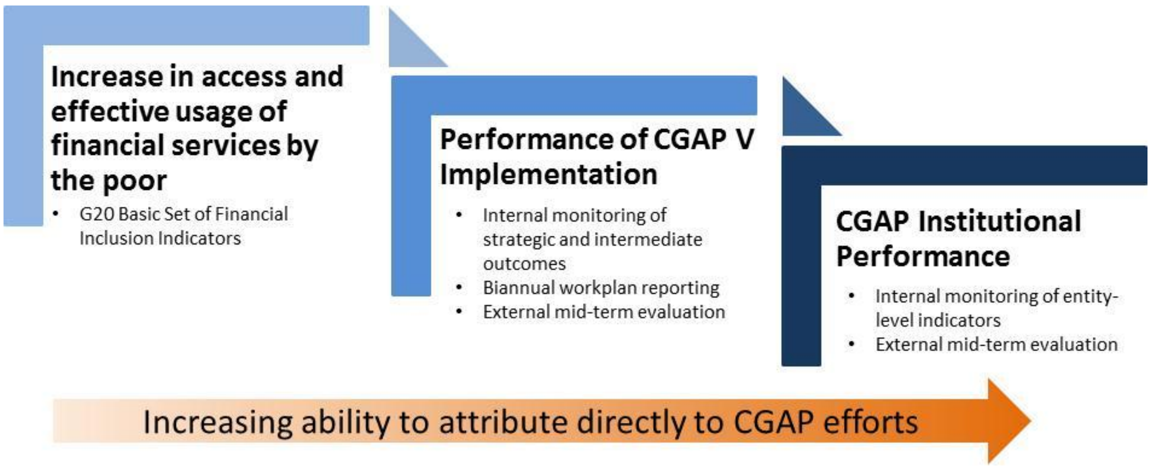
In 2013, the Gateway will also migrate to an open-source platform to leverage many of the new features and functionalities cgap.org now enjoys. Integrating the four regional sites onto one platform will enable the sites to provide a better user experience. The new strategy for the Microfinance Gateway also includes a plan to offer a platform for e-learning, modeled on cutting-edge e-learning platforms.

CGAP already has a strong social media footprint, but we expect to continue to leverage social sharing and expand CGAP's social media presence significantly, measuring both outreach and engagement. As we look at going beyond just a corporate presence, we will facilitate further CGAP staff engagement on social media. And we will continue to leverage social tools for sharing CGAP content and getting input from people around the world.

5. Results Framework and Monitoring and Evaluation

Results Framework. The three levels of accountability of CGAP's proposed results framework measure progress against (*i*) expansion of access to and effective usage of financial services by the poor, (*ii*) CGAP's achievement of expected outcomes over the CGAP V five-year strategy, and (*iii*) CGAP's performance as a member-governed organization with a long-term mission. (See Figure 4.)

Figure 4. CGAP Results Framework—Three Levels of Accountability



The proposed results framework also reflects feedback from the CGAP IV mid-term evaluation, which recommended strengthening the performance management system beyond its historically strong project-level monitoring.

At the first and highest level of accountability, CGAP's overall impact on global progress in the access to and usage of financial services by the poor should be assessed based on measurements drawn from the G-20 Basic Set of Financial Inclusion Indicators developed by the GPFI and endorsed by the G-20 leaders at the Los Cabos meeting in 2012. CGAP could never take credit for that global progress on its own, and any specific attribution would be impossible. Similarly, access and usage could slide back due to forces, such as another global financial crisis, that are beyond the control of CGAP and other financial-inclusion stakeholders. Nevertheless, in light of CGAP's mission and self-avowed role at the frontier of advancing financial access, overall progress on financial inclusion should be monitored and discussed. The global development community will have the appropriate context to judge any extenuating circumstances. In this context, it is important to note that, beyond access and usage, the quality of financial services is equally important element in measuring progress toward financial inclusion. CGAP, in its role as one of the implementing partners of GPFI and a member of the G-20 Data and Measurement Sub-group is working with other partners to develop the second generation of the G-20 Basic Set that will ultimately include quality indicators.

At the core of CGAP's results framework is the second level of accountability on CGAP's own effectiveness in achieving the specific strategic outcomes outlined for the key priority areas over the next five years. In developing the CGAP V strategy, considerable effort was made to formulate explicit *ex-ante* thinking on the theory of change for each of the priority areas and identify key audiences, models of engagement, and outcomes at the five-year level that focus on results (e.g., measurable changes in behavior by relevant stakeholders). Since the outcomes are framed as actions taken by the targeted stakeholders, attribution will be difficult, but the *ex-ante* thinking on causal pathways and related indicators should allow for an assessment of meaningful contributions. To support this, intermediate outcomes are also developed to assess whether we are making progress to achieve the five-year outcomes. Tracking the intermediate outcomes will enable CGAP to adjust and refine strategies as appropriate and necessary mid-course. Annex I details the proposed CGAP V strategic outcomes for each of the priority areas and associated indicators.

The third level of accountability assesses CGAP's performance as an institution, acknowledging that the total of CGAP's contributions and impact is greater than the individual priority areas identified. For example, the critical function of our knowledge, communications, and Web team is not explicitly captured in the specific priority areas. This third level of accountability will assess CGAP as an entity and along three dimensions: (*i*) relevance (has CGAP maintained its relevance at the frontier of an evolving field that CGAP both shapes and adapts to), (*ii*) sustainability (to what extent are the results of CGAP efforts likely to continue after CGAP exits the space), and (*iii*) accountability (has CGAP acted responsibly in its governance, management, and fiduciary prudence in regard to its commitment to the donor members).

Given the challenges of attribution with CGAP's role and engagement model, it is important to note that the results framework includes both quantitative and qualitative data to (*i*) better trace and understand the process by which CGAP achieves results and (*ii*) assess CGAP's relative contribution to such achievement (which may include averting undesirable actions such as harmful policy changes).

Monitoring and Evaluation. To support the implementation of the results framework and ensure CGAP is on the right track, CGAP will build on its existing monitoring and evaluation system. For monitoring, an internal project-level system has been in place for many years, with performance targets and indicators established at the beginning of all CGAP projects. Monitoring reports are prepared biannually. CGAP provides annual reports to its members on achievement of annual work plans. The CGAP Executive Committee commissions a mid-term external evaluation of each strategic phase to assess CGAP progress on achievements toward the five-year strategy. For *ex poste* evaluation, CGAP is exploring the use of contribution analysis methodologies, which focus on gathering evidence on the contribution a program makes on the outcomes it is trying to influence based on a sample of CGAP interventions.

Finally, as CGAP works on the frontier of responsible financial market development, our work needs to purposefully evolve over time. As identified frontiers become better understood and other players are being successfully crowded-in, CGAP's content priorities must evolve to tackle new frontier issues. New frontiers in this context does not exclusively mean reaching new, previously excluded segments, it also means better serving the underbanked or addressing emerging issues of quality. This evolution of frontier issues with the five priority areas may need to occur while the strategy is in the middle of implementation, so CGAP's results framework must be flexible to accommodate such strategic shifts as they become appropriate and necessary.

6. CGAP V Governance, Budget, and Operations

Governance. In September 2011, the CGAP Executive Committee commissioned a mid-term evaluation of CGAP's performance to date under the current phase (FY2009–FY2013) in relation to its strategy and priority objectives. The evaluation report offered a useful reflection of the opinions, affirmations, and concerns of our varied stakeholders with regard to CGAP's complex role. It also provided helpful guidance on the need to more clearly articulate our structure as a quasi-permanent entity with a long-term mandate, but operating under successive five-year programmatic strategies. This strategy document has acted on this recommendation with an explicit articulation of the long-term vision and entity-level mission and goals (see Section 2) as well as more explicit five-year strategic outcomes objectives (see Section 3).

The evaluation also suggested a review of CGAP's governance arrangements with the launch of the new strategy to ensure that the roles and responsibilities of the CG, Executive Committee, and the Investment Committee keep pace with current operational practice, evolving World Bank administrative requirements, and strategic needs. Upon adoption of the strategy, a small team of operational team members, CG members, and World Bank Group staff will, during summer 2013, offer a view on various governance reforms and prepare an overall charter refresh for virtual consultation and approval by the CG before the end of calendar year 2013.

With the commencement of each five-year strategy, a fresh look at membership composition, requirements, and responsibilities is warranted. As suggested directly by the CG, as well as in the mid-term evaluation, this phase calls for clarity around nonpayment and lapse of membership. These issues will also be reviewed and addressed as part of the charter refresh process.

Budget and Operations. CGAP (the members and operational team) is highly leveraged, and our global presence, reach, and brand by far exceed the direct cost of operations. The cost for implementing CGAP IV, with an average of 47 full-time team members and 60 part-time global consultants was approximately US$100 million, or US$20 million per year. We maintained strong core contributions, which increased during the phase to an average of US$13.5 million per year, or US$67.5 million for the entirety of CGAP IV. This was complemented by designated contributions for our agenda on business model innovation and the launch of the "clients" workstream toward the end of CGAP IV (see Table 2).

In CGAP IV, with the sustained support of the CG, both the number of donors and the average contribution increased from the prior phase. However, there is uncertainty over future World Bank financial contributions to CGAP. Since CGAP's inception, the World Bank has been its largest single donor and core contributor. In 2011, the Development Grant Facility that was used to make the World Bank contribution decided to focus on in-country third-party programs. While the World Bank maintains its strategic commitment to CGAP, it has not yet identified a replacement funding source and mechanism following one possibly last contribution for FY2014.

To adequately address the full thematic depth of the work as presented in the strategy document, the estimated resource requirement for CGAP V is approximately US$120 million over the full five-year period, or US$24 million per year (see Table 3). We anticipate small but strategic increases in operational staff levels to fully implement CGAP V. Select new skills and expertise will be required to deliver on several of the strategic outcomes (e.g., with respect to smallholder families).

To fund the new strategy as presented, the average annual contribution for CGAP V will need to increase. In line with the long-standing CG and Executive Committee guidance for selectivity, several of the priority areas described in this document can be launched only if there is net new additional funding over historical trends.

Table 2: Projected Total Donor Contributions to CGAP Budget FY2009–FY2013 (US$000)

	FY2009	FY2010	FY2011	FY2012	FY2013	Total FY09-13
World Bank	4,325	3,900	3,315	2,920	2,520	*16,980*
AFD/France	434	355	412	368	*368*	*1,938*
African Development Bank	-	-	200	-	-	*200*
Asian Dev Bank	-	-	-	-	-	-
Australia	280	407	951	2,134	*1,000*	*4,771*
Canada	*726*	*726*	-	246	256	*1,954*
Citi Foundation	100	100	100	100	250	*650*
Dell Foundation	200	100	100	200	100	*700*
Denmark	572	600	620	595	575	*2,962*
European Bank for Reconstruction and Development	-	-	-	-	-	-
European Commission	717	575	575	575	*1,035*	*3,477*
European Investment Bank	257	272	233	260	265	*1,288*
Finland	357	362	334	285	185	*1,523*
Ford Foundation*	-	-	-	200	*200*	*400*
France/Treasury	-	-	-	240	-	*240*
Gates Foundation	-	400	400	400	*400*	*1,600*
Germany	362	312	362	317	*504*	*1,857*
IADB/MIF	50	100	150	100	100	*500*
IFAD	300	300	500	*500*	*500*	*2,100*
IFC	300	300	300	450	450	*1,800*
ILO	-	-	-	-	-	-
Italy **	204	204	203	200	-	*810*
Japan	300	300	300	300	*300*	*1,500*
Luxembourg	508	454	485	*564*	*564*	*2,576*
Mastercard Found.	200	200	500	500	500	*1,900*
Netherlands	400	400	400	400	400	*2,000*
Norway	-	776	909	822	*822*	*3,329*

Omidyar Network	300	300	300	300	300	1,500
Spain	413	395	410	205	205	1,628
Sweden	391	412	461	450	461	2,175
Switzerland	383	415	455	324	319	1,897
UNCDF	100	100	100	100	125	525
United Kingdom	390	335	246	822	800	2,593
United States	300	100	100	200	200	900
Core	12,870	13,202	13,421	15,077	13,704	68,274
Details : Designated Contribution						
AFD/France	210	270	217	-	-	696
Italy	989	-	-	-	-	989
Gates Foundation	2,500	3,065	3,000	1,500	1,500	11,565
Mastercard Found.	-	-	-	2,872	4,930	7,802
United Kingdom	211	3,319	2,364	2,337	2,884	11,115
World Bank	-	-	54	-	-	54
Designated***	3,910	6,654	5,658	6,709	9,314	32,221
Total	16,780	19,855	19,079	21,786	23,018	100,495

Notes:

Pledged contributions subject to signed agreement are italicized.

Contributions with signed agreement but not yet received are Italicized and bolded.

Contributions received are shaded and bolded.

Contributions in "red" are assumed pledge based on historical trend.

* Ford : During FY06-11, Ford was unable to contribute to CGAP directly due to conflicting WBG/Ford AML/CFT language. Ford supports CGAP initiatives via direct payment to receiving organizations. Ford restarted its contribution to CGAP in FY12.

** Italy : FY12 contribution represents the difference between expected and actual funds returned to the donor balance account.

*** Designated contributions are:

- FY09 : Contribution received : $2.5M from BMGF, $989K from Italy, $211K from DFID, $210K from AFD.
- FY10 : Contribution received : $3.1M from BMGF, $3.3M from DFID. $270K from AFD.
- FY11 : Contribution received : $3M from BMGF, $2.4M from DFID (Pounds Sterling 1.5M), $54K from the World Bank. Contribution not yet received $240K from AFD.

MasterCard pledge

- FY13 : Contribution not yet received $1.5 M from BMGF, $4.93M from MasterCard, and Pounds Sterling 1.8M from DFID.
- FY14 : Contribution not yet received $1.98M from MasterCard. Contribution with assumed pledge Pounds Sterling 1.3M from DFID.
- FY15 : Contribution not yet received $1.67M from MasterCard.

*** MasterCard Foundation's Total contribution = $11.44M (FY12: 2.87M, FY13: 4.93M, FY14: 1.98M, FY15: 1.67M)

Table 3: CGAP V High-Level Resource Requirements (US$000)

	FY14	FY15	FY16	FY17	FY18	Total
Statement of Revenues and Expenses						
Revenues						
Donor Contributions	16,660	25,340	26,000	26,000	26,000	120,000
Interest Income	200	200	200	200	200	1,000
Total Revenues (A)	**16,860**	**25,540**	**26,200**	**26,200**	**26,200**	**121,000**
Programmatic Expenses						
Initiatives *	8,920	13,200	13,500	13,500	13,400	62,520
Understanding Demand to Effectively Deliver for the Poor **	*1,670*	*1,800*	*2,200*	*2,200*	*2,200*	*10,070*
Financial Innovation for Smallholder Families	*1,235*	*1,500*	*1,500*	*1,500*	*1,500*	*7,235*
Developing Robust Provider Ecosystems	*3,040*	*5,000*	*5,900*	*5,900*	*5,900*	*25,740*
Building an Enabling and Protective Policy Environment Globally	*1,200*	*1,525*	*2,100*	*2,100*	*2,100*	*9,025*
Promoting Effective and Responsible Funding for Financial Inclusion	*725*	*1,000*	*1,100*	*1,100*	*1,100*	*5,025*
Microfinance Gateway / E-learning Initiative	*1,050*	*2,375*	*700*	*700*	*600*	*5,425*
CGAP Regional Coordinations	830	830	830	830	830	4,150
Operating Expenses						
Core Staff Salaries and Benefits	6,100	6,290	6,480	6,670	6,869	32,409
Office and Occupancy Costs	1,180	1,220	1,250	1,290	1,330	6,270
Monitoring and Evaluation	-	-	-	200	50	250
Non-programmatic travels/ Internship/ Rapid Response	900	900	900	900	900	4,500
Communications & IT activities	1,700	1,350	1,350	1,350	1,350	7,100
CG and ExCom meetings	280	280	280	280	280	1,400
Administration Fee	740	1,310	1,300	1,300	1,300	5,950
Total Expenses (B)	**20,650**	**25,380**	**25,890**	**26,320**	**26,310**	**124,550**
Excess of Revenues over Expenses for the year (A)-(B)	**(3,790)**	**160**	**310**	**(120)**	**(110)**	
Operating Reserves at beginning of the fiscal year	10,310	6,520	6,680	6,990	6,870	
Operating Reserves at the end of the fiscal year ***	**6,520**	**6,680**	**6,990**	**6,870**	**6,760**	

* *Includes full cost of deeper thematic activities.*

** *Includes MIX Grants $250K per year.*

*** *Operating reserves are maintained at approximately 50% of annual operating expenses.*

Annex I. CGAP V Strategic Outcomes and Draft Indicators

Understanding Demand to Effectively Deliver for the Poor

OUTCOME 1:
Providers systematically source and translate client-specific insights into a suite of quality and sustainable financial services at scale.

Draft Indicators:
- CGAP-supported providers translating poor people insights into their product/service offerings
- Vibrant exchange and dialogue across industry advances client-centric financial inclusion

OUTCOME 2:
Financial inclusion stakeholders use harmonized, high-quality global data and impact research to make evidence-based decisions that advance responsible financial access to the poor.

Draft Indicators:
- Data standards on access, usage, quality adopted by Global FI community
- Vibrant exchange and dialogue across industry advances client-centric financial inclusion

Financial Innovation for Smallholder Families

OUTCOME 1:
Stakeholders accurately understand the financial services needs of underserved smallholder segments (particularly non-commercial smallholders) as both agricultural producers and consumers with other sources of income.

Draft Indicators:
- Self-report increase in awareness and knowledge
- Access/usage of CGAP materials, resources, tools
- Ratings on CGAP engagements/resources as high quality and relevant

OUTCOME 2:
Service providers and other stakeholders develop and pilot more effective financial services and products tailored to enhance the value proposition for smallholder families, focusing on improving their risk management ability and lowering provider delivery costs through the use of technology.

Draft Indicators:
- CGAP-supported providers translating smallholder family insights into their product/service offerings

Developing Robust Provider Ecosystems

OUTCOME 1:
Private and public sector businesses (banks, MFIs, MNOs, agent aggregators, ATM and POS networks, retailers, third party payment providers, switches and others) form country-level ecosystems that offer low-cost payment services enabling a wider range of client-responsive financial services for the poor at scale.

Draft Indicators:
- Poor users in tech-based business models supported by CGAP (e.g., branchless banking)

OUTCOME 2:
National regulators (financial sector, telecommunications, competition, and others) and policymakers understand the economic rationale of multi-stakeholder provider ecosystems and issue regulations and adopt policies that appropriately balance innovation and risk.

Draft Indicators:
- Policy recommendations/ guidelines/drafts (policy documents) by national or global entities that reflect CGAP guidance

Building an Enabling and Protective Policy Environment Globally

OUTCOME 1:
Policymakers—both domestically and through global bodies —are engaged and supported to create policy environments that promote financial inclusion, while optimizing its linkages with financial stability, financial integrity and financial consumer protection (I-SIP), minimizing negative tradeoffs and maximizing positive synergies.

Draft Indicators:
- Policy recommendations/ guidelines/drafts (policy documents) by national or global entities that reflect CGAP guidance
- Policymaking entities that source information/engage the poor in their policy work

OUTCOME 2:
Effective and proportionate consumer protection measures that benefit poorer and excluded customer segments are implemented in diverse countries, complementing initiatives that strengthen responsible provider behavior and consumer financial capability.

Draft Indicators:
- Policy recommendations/ guidelines/drafts (policy documents) by national or global entities that reflect CGAP guidance
- Policymaking entities that source information/engage the poor in their policy work

Promoting Effective and Responsible Funding for Financial Inclusion

OUTCOME 1:
Donors, DFIs and social investors play a catalytic role in providing appropriate financing for responsible market development.

Draft Indicators:
- Allocation of funding amounts by appropriate role
- Entities that implement CGAP-recommended changes (e.g., internal practices, funding instruments, strategy documents, etc.)

Notes:
- Criteria for defining specific indicators and how they will be measured still to be determined.
- Qualitative data (e.g., outcome stories) also to be collected to supplement the quantitative data.

References

Aker, Jenny, Rachid Boumnijel, Amanda McClelland, and Niall Tierney. 2011. "Zap It to Me: The Short-Term Effects of a Mobile Cash Transfer Program." Working Paper No. 263. Washington, D.C.: Center for Global Development.

Allen, Franklin, Elena Carletti, Robert Cull, Jun "Q. J." Qian, Lemma Senbet, and Patricio Valenzuela. 2012. "Improving Access to Banking: Evidence from Kenya." Philadelphia: Wharton, University of Pennsylvania, July.

Armendariz, Beatriz, and Jonathan Morduch. 2007. *The Economics of Microfinance*. Cambridge, Mass.: MIT Press.

Ashraf, Nava, Dean Karlan, and Wesley Yin. 2006. "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *Quarterly Journal of Economics*, 121(2): 635–72.

Banerjee, Abhijit V., and Esther Duflo. 2011. *Poor Economics*. New York: Perseus Books, Public Affairs.

Banerjee, Abhijit V., Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. 2010. "The Miracle of Microfinance? Evidence from a Randomized Evaluation." Cambridge, Mass.: J-PAL and MIT, June.

Bauchet, Jonathan, Cristobal Marshall, Laura Starita, Jeanette Thomas, and Anna Yalouris. 2011. "Latest Findings from Randomized Evaluations of Microfinance." Forum 2. Washington, D.C.: CGAP.

Bruhn, Miriam, and Inessa Love. 2009. "The Economic Impact of Banking the Unbanked: Evidence from Mexico." Policy Research Working Paper No. 4981. Washington, D.C.: World Bank.

———. 2012. "The Economic Impact of Expanding Access to Finance in Mexico." In Robert Cull, Aslı Demirgüç-Kunt, and Jonathan Morduch, eds., *Banking the World: Empirical Foundations of Financial Inclusion*. Cambridge, Mass.: MIT Press.

Bezanson, Keith A., and Paul Isenman. 2012. "Governance of New Global Partnerships: Challenges, Weaknesses, and Lessons." Policy Paper 014. Washington, D.C.: Center for Global Development.

Brune, Lasse, Xavier Giné, Jessica Goldberg, and Dean Yang. 2011. "Commitments to Save: A Field Experiment in Rural Malawi." Policy Research Working Paper No. 5748. Washington, D.C.: World Bank.

Burgess, Robin, and Rohini Pande. 2005. “Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment.” *American Economic Review*, Vol. 95, No. 3: pp. 780-795.

Carletto, Calogero, Sara Savastano, and Alberto Zezza. 2011. “The Impact of Measurement Errors on the Farm-Size Productivity Relationship.” Policy Research Working Paper No. 5908. Washington, D.C.: World Bank, December.

Carpena, Fenella, Shawn Allen Cole, Jeremy Shapiro, and Zia Bilal. 2010. “Liability Structure in Small-Scale Finance: Evidence from a Natural Experiment.” Policy Research Working Paper No. 5247. Washington, D.C.: World Bank, September.

Cecchetti, Stephen G., and Enisse Kharroubi. 2012. “Reassessing the Impact of Finance on Growth.” Working Paper No. 381. Basel: Bank of International Settlements, July.

Chen, Shaohua, and Martin Ravallion. 2012. “More Relatively-Poor People in a Less Absolutely-Poor World,” Policy Research Working Paper No. 6114. Washington D.C.: orld Bank, July.

Chironga, Mutsa, Jacob Dahl, Tony Goland, Gary Pinshaw, and Mamus Sonnekus. 2012. “Micro-, Small and Medium-Sized Enterprises in Emerging Markets.” New York: McKinsey & Company.

Cole, Shawn, Xavier Giné, Jeremy Tobacman, Petia Topalova, Robert Townsend, and James Vickery. 2011. “Barriers to Household Risk Management: Evidence from India.” Harvard Business School Finance Working Paper No. 09-116. Cambridge, Mass.: Harvard University.

Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. 2009. *Portfolios of the Poor: How the World’s Poor Live on $2 a Day*. Princeton, N.J.: Princeton University Press.

Crépon, Bruno, Florencia Devoto, Esther Duflo, and William Parienté. 2011. “Impact of Microcredit in Rural Areas of Morocco: Evidence from a Randomized Evaluation.” Working Paper. Cambridge, Mass.: Massachusetts Institute of Technology, March.

de Mel, Suresh, David McKenzie, and Christopher Woodruff. 2008. “Returns to Capital in Microenterprises: Evidence from a Field Experiment.” *Quarterly Journal of Economics*, Vol. 123(4): 1329–72.

Demetriades, P. O., and S. H. Law. 2006. “Finance, Institutions and Economic Development.” *International Journal of Finance and Economics*, 11(3): 245–60.

Demirguc-Kunt, Asli, and Leora Klapper. 2012. “Measuring Financial Inclusion: The Global Findex Database.” Policy Research Working Paper No. 6025. Washington, D.C.: World Bank, April.

Duflo, Esther, Michael Kremer, and Jonathan Robinson. 2008. “How High Are Rates of Return to Fertilizer? Evidence from Field Experiments in Kenya.” *American Economic Review*, 98(2): 482–88.

———. 2010. “Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya.” Working Paper No. 15131. Cambridge, Mass.: National Bureau of Economic Research.

Dupas, Pascaline, and Jonathan Robinson. 2011. “Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya.” Working Paper No. 14693. Cambridge, Mass.: National Bureau of Economic Research.

Eastwood, Robert, Michael Lipton, and Andrew Newell. 2006. “Farm Size.” Paper prepared for Volume III of the Handbook of Agricultural Economics, September. University of Sussex. Located at www.sussex.ac.uk/Users/ssfe3/papSEP.doc.

Economist, The. 2007. “In Praise of Usury.” *The Economist*, 2 August, located at http://www.economist.com/node/9587533

Fafchamps, Marcel, David McKenzie, Simon Quinn, and Christopher Woodruff. 2011. “When Is Capital Enough to Get Female Enterprises Growing? Evidence from a Randomized Experiment in Ghana.” Policy Research Working Paper No. 5706. Washington, D.C.: World Bank.

Feigenberg, Benjamin, Erica Field, and Rohini Pande. 2010. “Building Social Capital through Microfinance.” HKS Working Paper. Cambridge, Mass.: Harvard University.

Giné, Xavier, and Dean Karlan. 2011. “Group versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups.” Working Paper. New Haven, Conn.: Yale University, June.

Giné, Xavier, Jessica Goldberg, and Dean Yang. 2011. “Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi.” Working Paper No. 17449. September. Cambridge, Mass.: National Bureau of Economic Research.

Giné, Xavier, Lev Menand, Robert Townsend, and James Vickery. 2010. “Microinsurance: A Case Study of the Indian Rainfall Index Insurance Market.” Policy Research Working Paper No. 5459. Washington, D.C.: World Bank.

ILO (International Labour Organization) Department of Statistics. 2011. “Statistical Update on Employment in the Informal Economy.” Rome: ILO, June.

Institute for Research on Poverty. 2011. “The Psychology of Poverty.” *Focus*, Vol. 28 (1): 19–22.

Jahan, S., and B. McDonald. 2011. “A Bigger Slice of a Growing Pie.” Washington, D.C.: International Monetary Fund, September.

Jayne, Thomas. 2012. “Who Are We Talking about? The Spectrum of Smallholders.” Presentation at USAID Evidence Summit, December.

Karlan, Dean, and Jacob Appel. 2011. *More Than Good Intentions: How a New Economics Is Helping to Solve Global Poverty*. New York: Dutton, Penguin Group, April.

Karlan, Dean, Isaac Osei-Akoto, Robert Osei, and Chris Udry. 2012. “Agricultural Decisions after Relaxing Credit and Risk Constraints.” Working Paper No. 18463. Cambridge, Mass.: National Bureau of Economic Research.

Karlan, Dean, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman. 2010. “Getting to the Top of Mind: How Reminders Increase Saving.” Working Paper No. 16205. Cambridge, Mass.: National Bureau of Economic Research.

———. 2011. “Getting to the Top of Mind: How Reminders Increase Saving.” Working Paper, January. New Haven, Conn.: Yale University. http://karlan.yale.edu/p/Top%20of%20Mind%202011jan.pdf

Karlan, Dean, and Jonathan Morduch. 2009. “Access to Finance: Ideas and Evidence. Risk Management and Insurance.” Note. New York: Financial Access Initiative.

Karlan, Dean, and Jonathan Zinman. 2010. “Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts.” *The Review of Financial Studies*, Vol. 23 (1): 433–64.

Levine, Ross. 2005. “Finance and Growth: Theory and Evidence.” In Philippe Aghion and Steven Durlauf, ed. *Handbook of Economic Growth*, edition 1, volume 1. Amsterdam: Elsevier.

Ravallion, Martin. 2012. “How Long Will It Take to Lift One Billion People Out of Poverty?” Policy Research Working Paper 6325. Washington, D.C.: World Bank.

Rousseau, P., and P. Wachtel. 2002. “Inflation Thresholds and the Finance-Growth Nexus.” *Journal of International Money and Finance*, 21(6): 777–93.

Rutherford, Stuart. 1999. *The Poor and Their Money*. Oxford: Oxford University Press.

World Bank Findex Database. 2012. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTFINRES/EXTGLOBALFIN/0,,menuPK:8519698~pagePK:64168176~piPK:64168140~theSitePK:8519639,00.html