



2017

CGAP ANNUAL REPORT

Advancing Financial Inclusion to
Improve the Lives of the Poor

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THE CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP)

works toward a world where everyone has access to and can use financial services to improve their lives.

AN INDEPENDENT GLOBAL PARTNERSHIP of more than 30 leading development agencies, private foundations and national governments, CGAP was established in 1995 and is housed at the World Bank. We combine practical research with evidence-based advocacy to advance poor people's access to finance. CGAP seeks to identify barriers to financial inclusion, articulate ways to remove them, and collaborate with financial service providers, policy makers, and funders on ways to bring about change.





OUR MISSION IS TO

improve the lives of poor people
by spurring innovations and advancing knowledge
and solutions that promote responsible, sustainable,
inclusive financial markets.

LETTER FROM THE CEO



GRETTA L. BULL
Chief Executive
Officer, CGAP

It is both an exciting and an unnerving time to be in the business of financial inclusion: exciting because good progress is being made on providing access to financial services for all, largely thanks to rapid technological change; unnerving because the pace of change is accelerating, and our ability to ensure that change reaches the poor in a meaningful and safe way is relentlessly being put to the test.

At CGAP, we have focused on the powerfully disruptive role played by technology in financial inclusion for over ten years. We have watched as microcredit morphed into microfinance, then into financial inclusion and digital finance, and more recently into digital inclusion more broadly, emphasizing the important role that digital connectivity and financial services can play in delivering a wide range of essential services—both financial and non-financial—to the poor. With that evolution has come a relentless focus on scale, and the arrival of technology has made scale possible in many places.

But are services really reaching the poor? And are they making their lives better?

These questions have been very much on our minds as we deliver on the final phases of our five-year strategy, CGAP V, and look forward to CGAP VI, which starts in July 2018. CGAP V has allowed us to explore in depth the needs of excluded segments like small-holder farmers and women. It has allowed us to work with regulators at both the global and local levels on the challenges and opportunities technology brings to their jobs. It has allowed us to work with companies that are building entirely new business models around connectivity and data, and to think about how to make those business models work sustainably while serving the poor. It has allowed us to explore what it

takes to put customers at the center of a business, and how both businesses and governments have a shared responsibility for ensuring the protection of those consumers from poor business practices. And we have had a front-row seat to observe the ways in which the financial services value chain is being disaggregated as new players like mobile network operators and Fin-Techs have entered the market. We have learned a lot from working with our many partners over the last four years, and have seen many of the insights we have generated together taken up in the marketplace. But there remains a lot to do.

As part of our strategy process for CGAP VI, we stepped back to take a look at the forces we believe will have the most impact on poor people's lives in the next decade. No one will be surprised by the trends that came out on top: inequality, migration (due to conflict, climate change or simply seeking a better life), the rise of the digital economy, the globalization of data and information, and fundamental changes in livelihoods and work. These trends are affecting people in developed countries just as much as they are affecting the poor in emerging markets, but their impact will be felt differently in different places. As access to technology and information becomes more ubiquitous, it brings with it risks, particularly for the poor who have very little margin for error. As we turn our attention to CGAP VI, our aim is to be open to all of the possibilities that technology brings to extend our reach, while always remaining aware of the risks it brings in its wake.

What does this mean from a practical perspective? As large platform players like Google, Alibaba and Facebook enter the financial inclusion space and begin to compete with established players, we need to think about data protection and privacy and cybersecurity. We also need to think about the potential



“As access to technology and information becomes more ubiquitous, it brings opportunities but also risks, particularly for the poor who have very little margin for error. As we turn our attention to CGAP VI, our aim is to be open to all of the possibilities.”

for concentration of market power in the hands of a few players and the evolving role of regulators in a financial sector that is growing ever more complex. We need to think about all of the things data can do for businesses, but also all of the risks to poor consumers of having their data in the digital marketplace. We need to think about how to evolve cash-in/cash-out networks in Africa, which currently represent a very heavy cost to providers, but are indispensable to financial inclusion in the absence of bank accounts. We need to think about ways to get agent networks to rural areas and to bring down the cost of maintaining bank accounts for the poor so that someday cash networks are no longer required. We need to think about how providers can open up and leverage their platforms so that more use cases can be run over the same market infrastructure, bringing efficiency to small-scale markets. And at the same time, we need to think about how we turn open digital ecosystems into business opportunities for enterprising micro and small enterprises, whether as merchants, agents or developers. We need to think about the impact of financial services on the lives of the poor—both positive impact and some of the potentially harmful side effects so that they can be mitigated. We need to make sure we are not exporting a financial system to emerging markets that repeats the same mistakes of developed markets, where in the United States 46% of families can-

not come up with \$400 in an emergency. Finally, we need to make sure that inclusion works for all, including smallholder farmers, women, migrants, youth and other excluded groups.

While we are very excited about the progress that has been made on financial inclusion since CGAP was founded in 1995, we are acutely aware of the challenges that lie ahead. Financial services are a means to an end. Ideally, they give poor people access to opportunities to improve their lives and provide them with tools to ride out difficult times. Technology has opened up many new pathways to achieve this end, as we saw with the launch of M-Pesa in East Africa ten years ago, an innovation that spurred the spread mobile payments across Africa. More recently in markets in Asia, innovations particularly on platforms are taking digital finance to new levels. And the cycle begins again, with new lessons from Asia re-exported back to Africa, where they will be adapted and applied in new market contexts. We are still at the early stages of this journey. Much remains to be done to ensure that meaningful financial services are available to all, and most importantly, to understand the impact those financial services are having on the lives of the poor.

As we close out our FY2013-FY2018 strategy in CGAP V and move into CGAP VI, we look forward to working with our many partners to deliver on the promise of financial services for all.

Greta Bull
CEO, CGAP



“We need to think about how we turn open digital ecosystems into business opportunities for enterprising micro and small enterprises, whether as merchants, agents or developers.”

CGAP SHAPES THE FIELD OF



CGAP I
1995–1998
Prove the
concept of
microcredit

CGAP II
1998–2003
Scale up
microfinance

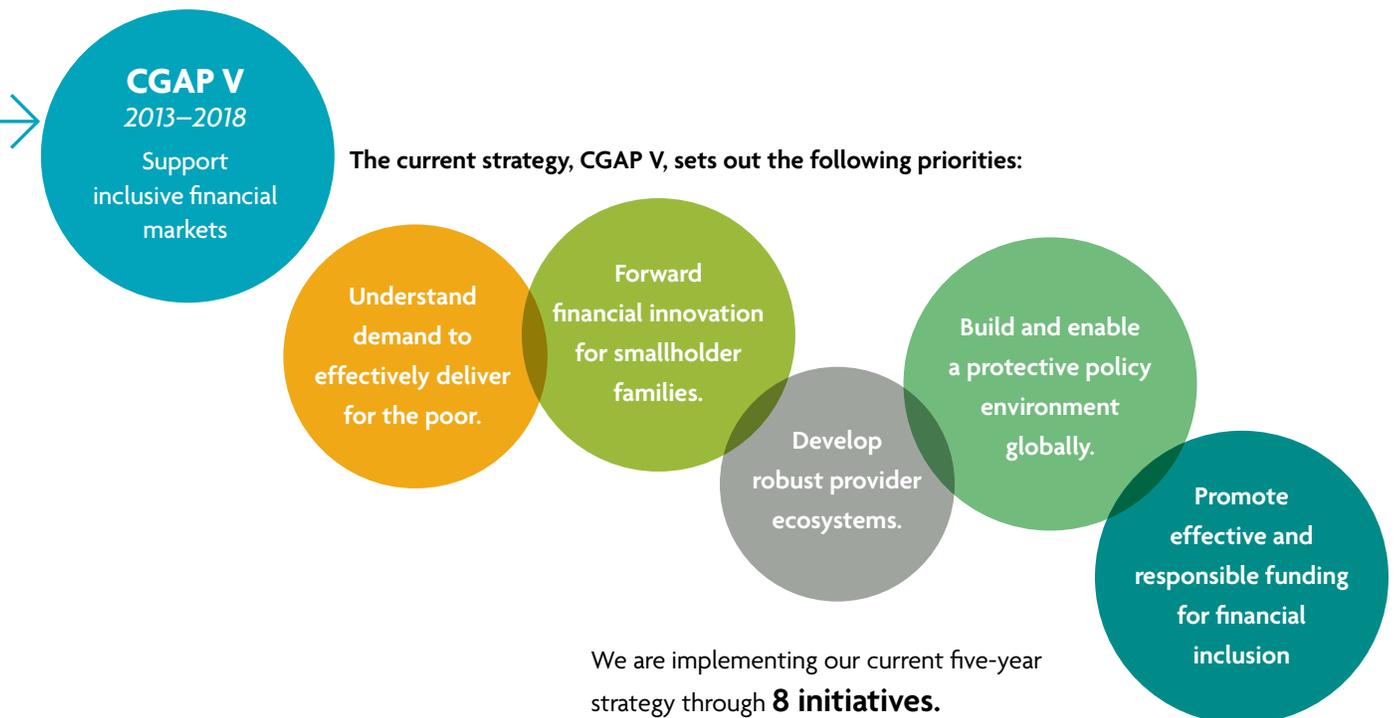
CGAP III
2003–2008
Support
broader range
of services

CGAP IV
2008–2013
Advance
new business
models

→ FINANCIAL INCLUSION

CGAP organizes its work around a five-year strategy that is designed to help build financial systems that work for the poor. We identify emerging challenges and opportunities, build the evidence base for potential solutions through research and demonstration projects, and we share lessons learned with financial service providers, mobile network operators, policy makers, regulators, and funders. Through each of these steps, we work in partnership with our key stakeholders and seek to scale up viable models for financial inclusion as a means to address poverty.

CGAP's STRATEGY



DIGITAL FINANCE FRONTIERS

Many of the world's poor live in small, rural communities where the cost of building bank branches is a major barrier to financial inclusion. The growing use of mobile phones in emerging markets is making it easier to reach these customers through digital financial services (DFS). Today, more than 550 million people are linked through mobile payments services. Other technologies such as high-definition satellite imagery, data analytics, and remote lockout technology are creating new opportunities to deliver more meaningful financial services to low-income people. In some cases, these also help expand access to other essential services such as education, water and solar energy, by leveraging digital finance.

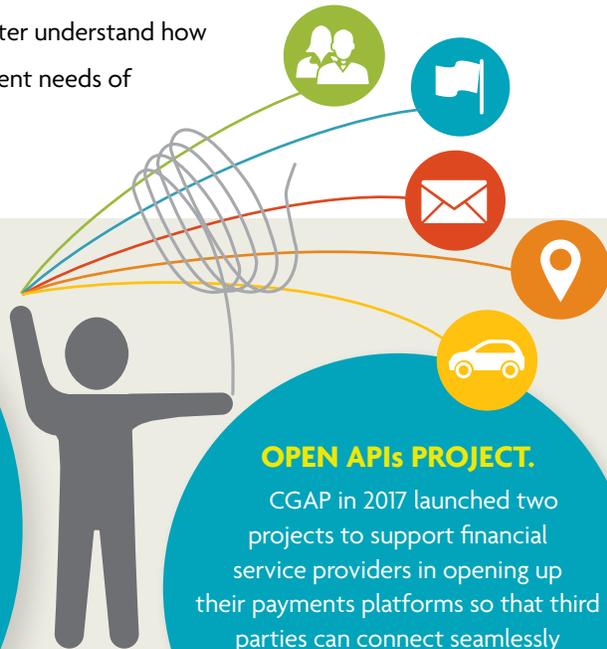
The Digital Finance Frontiers initiative partners with providers in the field to test emerging approaches to serve harder-to-reach segments. Through these partnerships, CGAP captures learning and insights that shares back with broader industry to advance learning and support replication of successes.

In FY 2017, CGAP partnered with **20** financial services providers in **9** countries to produce examples of open digital payments platforms, more effective delivery models, and improved DFS solutions, and to better understand how digital finance can help meet broader development needs of poor people.

DIGITAL SOLUTIONS

Launched 5 projects on customer value, 3 partnerships with FSPs, 5 new Fintech projects

Many mobile accounts sit unused, suggesting customers see little value in financial services. CGAP partnered with Tigo Money in Paraguay and Mynt in the Philippines **to test the value of sending direct messages** to customers informing them of ways they could make better use of their money. Customers in Paraguay who engaged in the SMS conversations increased their mobile wallet transactions by 21 percent after two months, and in the Philippines by 7 percent after four months.



OPEN APIs PROJECT.

CGAP in 2017 launched two projects to support financial service providers in opening up their payments platforms so that third parties can connect seamlessly and create powerful solutions that serve the unmet needs of poor people.

“Now the house is really bright and the kids are able to study at night. We use to go to the next city to charge our phones, but now we charge them easily.”

—PAYGo SOLAR CUSTOMER, Ghana

ESSENTIAL SERVICES.

Four projects launched in FY2017

In one project, CGAP partnered with FIBR, a joint project of Mastercard Foundation and BFA, to study why customers buy pay-as-you-go (PAYGo) solar and how they afford it. The study found that while solar energy initially may cost more than kerosene, people are willing to pay more because they welcome how electricity improves the quality of their lives.





SEND MONEY HERE

“Why do you need a **business case** to listen to your consumers, understand their needs and design products and services that meet their expectations? It doesn't need a business case. It's logic.”

—**BRETT MCGRATH**, co-founder of Zooka, mobile money service in Zambia

CUSTOMERS AT THE CENTER

Dormant accounts among poor people, high dropout rates for microcredit and lapses in microinsurance payments suggest that far too many low-income customers find little value in financial products and services. Even though we have built good digital pathways for account opening, account usage is a continuing challenge for financial inclusion. To address this gap, CGAP has partnered with financial service providers (FSPs) to deepen their understanding of the livelihoods, needs and behaviors of low-income customers, empowering them to develop a customer-centric approach to financial products and services. Based on this work CGAP in 2017 launched the **Customer-Centric Guide**, an online tool packed with guidance and resources on how to move toward a business model that creates new revenue streams while offering value for poor people and opportunities for the benefit of society as a whole.

CUSTOMER-CENTRIC GUIDE →
7,000 sessions and **22,000 page views** in its first five months since launch.



CGAP partnered with **10 FSPs** in **9 countries** on developing customer-centric business models.

Digicel Haiti implemented the customer-centric approach developed by CGAP to market new services, and it adopted customer empowerment and agent enhancement practices. Within two years, the number of Digicel customers actively using mobile money in a 90-day period soared to 800,000 from 40,000 in 2015—a 20-fold increase.





“CGAP’s data is a great resource. It helped us design our mobile layaway service and plan for a pilot [near Arusha, Tanzania]. Now we’re using the data to understand the product’s potential in other regions.”

—**KARAN KAPOOR**, *Managing Director, Positive International Limited*

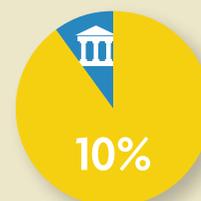
SMALLHOLDER FAMILIES

Smallholder families constitute the largest segment of people globally living on less than \$2 a day, and they often lack access to basic financial services that could help lift them out of poverty. The barriers to reaching smallholders with financial services are significant. Most live in rural areas unserved by brick-and-mortar bank branches. Many are illiterate and have low levels of financial awareness.

Over the past four years, CGAP has engaged with thousands of smallholders in more than 10 countries to document their financial goals, challenges, and needs. For seven countries, CGAP has compiled a unique set of survey data that offers an unparalleled glimpse into their financial lives. Findings from Bangladesh were published in FY2017 and final surveys from Nigeria and Côte d'Ivoire in early FY2018. CGAP now is building a data portal with analytical insights and tools to help financial service providers and other stakeholders develop new products and financial solutions to reach this underserved market. Already **28** financial services providers in Africa and Asia have used CGAP's research to test innovative digital solutions for smallholders, including savings, insurance, credit and payments products.

Like so many smallholder families in Tanzania, William usually lacks sufficient cash to buy the seeds, fertilizers, and other inputs he needs at planting time to produce a good harvest. Agricultural input distributor Positive International Limited (PIL) and the Grameen Foundation, with support from AGRA, were considering offering a layaway service that would allow farmers to save for supplies via their mobile phones. They used CGAP's Tanzania survey and found that **96** percent of smallholders in their pilot region owned a mobile phone, **84** percent used mobile money but only **24** percent paid bills via mobile. The survey also showed that **13** percent of smallholders in their pilot region already used layaway schemes. These findings convinced them that there was enough demand for layaway and the data informed PIL's decision that agri-dealers should educate customers on using the bill pay feature of the mobile service.

CGAP'S TANZANIA SURVEY



have a bank account in their name



have their own mobile phone



have a mobile money account



PROTECTING CONSUMERS

CGAP's Protecting Consumers work addresses important barriers to low-income consumers' uptake of financial services: a lack of transparency in product pricing and terms, unsuitable product features and user interfaces, inability to transact, inadequate complaints handling, and the risk of fraud or loss of privacy.

CGAP has developed guidance and practical tools on consumer protection that increasingly are being adopted by digital financial services providers, financial policy makers, funders and development agencies. Other regulatory authorities in telecommunications and competition and other related arenas also are showing interest in CGAP's innovative approaches to addressing consumer risks in digital financial services.



Policy makers
9 in at least
countries

have incorporated aspects of CGAP's methodology for assessing financial services providers' retail sales practices and consumer behaviors, laid out in its technical guide on mystery shopping.



8 digital FSPs

have collaborated with CGAP to develop and test variations of product menus, disclosure formats and interactive learning platforms that increase low-income consumers' understanding of the product features and key terms and conditions.



Following four years of
CGAP engagement,
in March 2017

The Bank of Ghana

issued guidelines on consumer recourse for all financial services and on credit disclosure, including mandated consumer-tested formats.



The Tanzania Insurance Regulatory Authority adopted behavioral research methodologies to assess sales practices and inform market conduct guidelines based on CGAP's input. Anna Abayo, Acting Director of Licensing and Market Conduct Supervision, said the authority's work with CGAP prompted one of the largest insurance providers in Tanzania to improve its business practices and the quality of its microinsurance products in March 2017. "Consumer complaints to the insurance authority have since declined significantly," Mrs. Abayo said.

Informed by CGAP research, the **Competition Authority of Kenya** in October 2016 ordered all digital financial service providers to provide consumers with full information on the costs of service before they finalize a mobile money transaction.

INCLUSIVE PAYMENT ECOSYSTEMS

Digital transactions open up pathways to a wide variety of financial services, from electronic payments, to digital credit and savings and more, which in turn can deepen financial inclusion. But reaching scale usually requires enabling regulations, dynamic service providers, compelling use cases and a significant investment by providers, particularly on customer awareness and building out of agent networks. CGAP works in ten countries to share global knowledge and drive country-level change for building inclusive payment ecosystems. We collaborate broadly with central bankers, government officials, business leaders and others to identify barriers to digital financial service uptake and growth in each market. We also support stakeholders in areas such as enabling regulations, developing and testing new approaches and products, and driving the use of digital transactions in both public and private sectors.

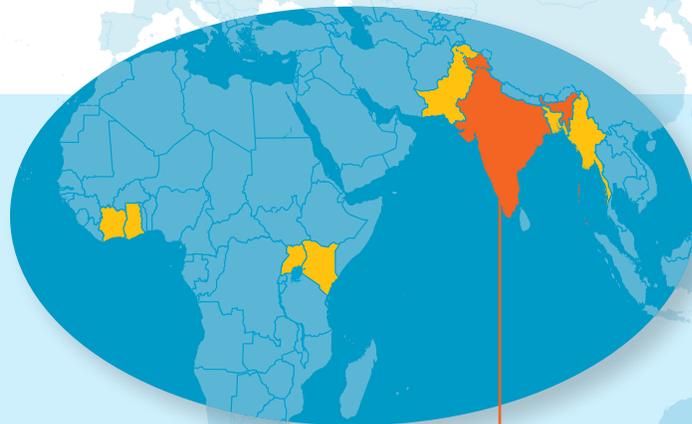
4 Basic Regulatory Enablers

CGAP has found that to foster digital financial services, regulations are needed on:

- Issuance of electronic money and other stored value accounts
- Use of agents
- Tiered, risk-based know-your-customer rules
- Consumer protection

● Enabling regulations adopted in:

Pakistan, India, Bangladesh, Kenya, Ghana, and Myanmar



● **India** is home to more unbanked people than any other country. But its new financial infrastructure can connect hundreds of millions of people, businesses and governments digitally and bring them into the financial system. CGAP's video on India Stack explains how it works to help other countries explore its potential for reaching those financially underserved.





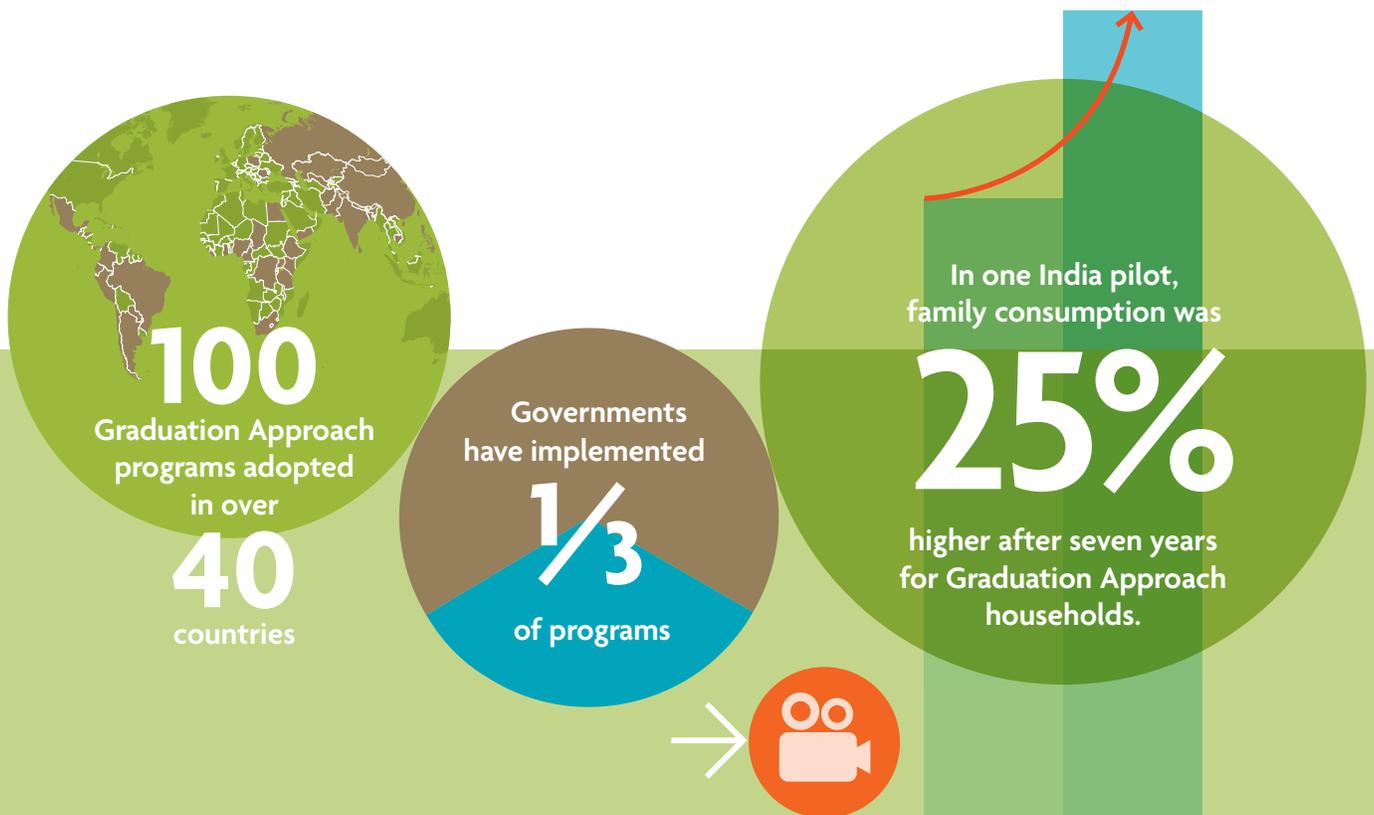


“Now I can say I can stand on my own feet . . . I have goats, chickens and also land. I am a member of a self-help group from which I can take out a loan. In case of any problems, I can access money from these assets.” —**ACHIRON BIBI**, *India*

GRADUATING THE POOR

Moving out of extreme poverty and building a resilient livelihood takes far more than opening a bank account. It requires skills training, coaching, basic food support delivered over many months as well as seed capital and access to financial services. Through a decade of research, CGAP has proven that a series of interventions over several years is one of the most successful ways of helping the poorest families transition out of extreme poverty in a lasting way.

CGAP in 2017 handed over Graduating the Poor to a new platform, **The Partnership for Economic Inclusion**, fulfilling its mission of achieving proof of concept and allowing others to take initiatives to scale. PEI is hosted by World Bank's Social Protection and Jobs Global Practice and will work with governments on implementing the graduation approach. It also will help foster innovations, such as adapting the program for youth, refugees and other vulnerable segments.



GUIDANCE FOR FUNDERS

Funding for financial inclusion increased by 13 percent to \$34 billion in 2015, according to CGAP's annual Cross-Border Funder Survey. Despite significant funding, approximately 2 billion people remain excluded from the formal financial system. To broaden inclusion CGAP believes that a shift towards a systemic approach is needed, one that takes a comprehensive view of how best to improve the way markets function. This builds on a growing consensus and emerging evidence that such approaches are more effective in addressing complex developmental challenges in a sustainable way. CGAP's engagement with funders has resulted in an increased interest in and application of a market systems approach in their financial inclusion interventions. Several funders have integrated aspects of a systemic approach into their strategies or measurement frameworks and approached CGAP for advice and training.



\$34bn

in funding for
financial inclusion in 2015,
CGAP-MIX study finds.



Funding Explorer
data tool
launched

3

two-day trainings in
2017 for newly
launched course on
market systems
approach

“I really enjoyed the interactive sessions, games, questions and answers. It was a very practical and close-to-reality training that can be applied to our work.”
— PARTICIPANT





GLOBAL POLICY ARCHITECTURE

Financial policy makers increasingly are recognizing the linkages between financial inclusion and achieving their core goals of financial stability, financial integrity and protecting consumers, together known as the I-SIP objectives. Informed by CGAP's research and experience, the global standard-setting bodies have integrated financial inclusion concepts into their research, standards and guidance. And they are recognizing that digital innovation in financial services offers new opportunities to reach excluded people while also changing the risk picture in ways that call for careful monitoring, as well as increasing coordination and collaboration among them.

CGAP in 2017 and 2018 is focusing on ways to build capacity among country-level policy makers and support them in implementing regulations and supervising institutions in a way that achieves a balance between the various objectives of stability, integrity, protection and inclusion, while also undertaking trend-spotting and landscaping activities to help country-level policy makers and standard setters alike keep pace with the accelerating pace of change.

Since 2014, CGAP has helped shape

17

policy documents by global bodies referencing financial inclusion.

5

countries have embraced I-SIP principles in national policy

30

supervisors and regulators from eight African countries trained on I-SIP and digital finance in FY 2017

CGAP'S INFLUENCE VECTORS:

G20 Global Partnership for Financial Inclusion

Basel Committee on Banking Supervision

Committee on Payments and Market Infrastructures

Financial Action Task Force

The Financial Stability Board

International Association of Deposit Insurers

International Association of Insurance Supervisors

International Organization of Securities Commissions

International Telecommunications Union





GATEWAY ACADEMY

Gateway Academy, is a learning platform for financial inclusion in Sub-Saharan Africa. Through partnerships with FSPs and industry stakeholders, we identify training and knowledge gaps in the marketplace and offer FSPs self-paced and facilitated courses from high-quality content providers. We also cultivate communities of practice. The collaborative approach enables training service providers to reach new audiences and identify areas of demand. In 2017, Gateway Academy made great progress by establishing a board of advisors and releasing a minimally viable (MVP) version of the platform. We are testing courses on the platform in three iterative stages while continuing to build additional platform functionality and source new course content.



Focus on **7 countries**: Kenya, Tanzania, Uganda, Rwanda, Malawi, Zambia and Ghana.

- Tested content with **15 FSPs** including Musoni, Equity Bank Kenya, Fidelity Bank Ghana, NBS Malawi, AB Zambia, Access Bank Tanzania, Centenary Bank, Ugafode, Jamii Bora Kenya, Letshego Tanzania.
- Worked with **4 training service providers** (Helix Institute of Digital Finance, CGAP, Strathmore Business School, Accion) to develop **8 online courses**.
- **150 learners** from 5 countries (Kenya, Uganda, Tanzania, Ghana, Zambia) took courses. An additional **103 learners** from our focus countries tested versions of Gateway Academy courses on third-party platforms.



 Gateway Academy

 Gateway Academy App (ANDROID AND APPLE)

“The course content of Gateway Academy—I haven’t seen anything like it. The topics covered related to financial inclusion and people from other parts of Africa. I liked learning about other countries’ practices.”

—ALFRED PAHA, *Fidelity Bank, Ghana*



COMMUNICATIONS

WEBSITES

CGAP.org



678,848 visits



77,242 publications accessed



Median downloads +36%



Blog traffic +24%

Microfinance Gateway



1.07 mln visits



179,928 publications downloaded +18%



4,000+ organizations contributed content

TWITTER



@CGAP followers +16.5% to 23,997 • Retweets +29.2%

MEDIA



1,261 media mentions, including the *Financial Times*, the *Guardian* and *Busines Daily Africa*

VIDEOS



47,094 views online

WEBINARS



Reached 1,500+ people



CGAP PUBLICATIONS

FY2017

Vision of the Future: Financial Inclusion 2025

FOCUS NOTE | *Estelle Lahaye, Thomas Abell, James K. Hoover*

The future for poor people and financial inclusion is difficult to predict. In what ways will financial services influence inequality and economic participation for poor people by 2025?

<http://www.cgap.org/publications/vision-future-financial-inclusion-2025>

National Survey and Segmentation of Smallholder Households, Bangladesh

WORKING PAPER | *Jamie Anderson, Alexander Moler, Nathaniel Kretchun*

CGAP conducted a nationally representative survey of smallholder households in Bangladesh in 2016. The survey explored the agricultural and nonagricultural activities, financial practices and interests, and challenges and aspirations of smallholder families in Bangladesh.

<http://www.cgap.org/publications/national-survey-and-segmentation-smallholder-households-bangladesh>

CGAP Smallholder Household Surveys Data Set User Guide, Bangladesh

WORKING PAPER | CGAP

This Data Set User's Guide provides information on the methodology used for the 2016 CGAP Smallholder Household Surveys in Bangladesh.

<http://www.cgap.org/publications/cgap-smallholder-household-surveys-data-set-user-guide-bangladesh>

Digital Finance and Sustainable Water Service for All

BRIEF | *Daniel Waldron and Alexander Sotiriou*

Globally, 663 million people lack access to a secure source of water. This Brief looks at how people currently access water service and examines how digital finance is beginning to drive financially sustainable ways of delivering water service.

<http://www.cgap.org/publications/digital-finance-and-sustainable-water-service-all>

The Role of Financial Services in Humanitarian Crises

FORUM | *Mayada El-Zoghbi, Nadine Chehade, Peter McConaghy, Matthew Soursourian*

Humanitarian crises pose a formidable development challenge. While the nature and incidences of these crises vary significantly, they affect millions of people, particularly the most vulnerable. Financial inclusion offers one potential pathway to bridge the humanitarian-development divide and support crisis-affected people in both the short- and long-term.

<http://www.cgap.org/publications/role-financial-services-humanitarian-crises>

Digitizing Value Chain Finance for Smallholder Farmers

FOCUS NOTE | *Max Mattern and Rossana M. Ramirez*

The digitization of value chain finance—financial services that flow to or through any point in a value chain—is changing the way smallholders access the financial tools necessary to invest in their farms, manage risk, and transact with markets. Here, CGAP explores opportunities and emerging models in digital value chain finance.

<http://www.cgap.org/publications/digitizing-value-chain-finance-smallholder-farmers>

Mystery Shopping for Digital Financial Services: A Toolkit

WORKING PAPER | *Michelle Kaffenberger and Danielle Sobol*

Mystery shopping is a powerful tool regulators can use to investigate specific issues in a market, understand customer experiences following the rollout of new services or regulations, and measure continual compliance with existing regulations. This toolkit provides practical, easy-to-use guidance that a regulator and research firm can use for conducting a mystery shopping study.

<http://www.cgap.org/publications/mystery-shopping-digital-financial-services>

Digital Rails: How Providers Can Unlock Innovation in DFS Ecosystems Through Open APIs

WORKING PAPER | *Olga Morawczynski, Lesley-Ann Vaughan, Michel Hanouch, and Xavier Faz*

This handbook explores the opportunities open APIs present for opening up digital payment platforms, enabling innovation, and expanding digital financial services (DFS) ecosystems.

<http://www.cgap.org/publications/digital-rails>

The Business Case for Customer Centricity

BRIEF | *Lisa Stahl, Barbara Magnoni, and Gerhard Coetzee*

Generating greater value for customers is good for business. Long-term assessment of customer lifetime value can reveal the business potential of customer segments that were previously considered unprofitable and can establish the value of a customer-centric approach.

<http://www.cgap.org/publications/business-case-customer-centricity>

Fraud in Mobile Financial Services: Protecting Consumers, Providers, and the System

BRIEF | *Mercy Buku and Rafe Mazer*

Mobile financial services have rapidly become a conduit for fraud and other criminal activity. This Brief highlights how fraud

is impacting mobile money providers, agents, and consumers, as well as efforts to reduce risks and vulnerabilities to fraud in mobile money and related services.

<http://www.cgap.org/publications/fraud-mobile-financial-services>

Crowdfunding and Financial Inclusion

WORKING PAPER | Ivo Jenik, Timothy Lyman, and Alessandro Nava

A financial innovation! The fastest growing financial industry! The next big thing in finance! Crowdfunding has garnered a lot of attention for its potential to further financial inclusion efforts. Learn more about how the crowdfunding phenomenon is mapped globally, its main characteristics and modalities within the framework of financial inclusion, and which issues policy makers should explore.

<http://www.cgap.org/publications/crowdfunding-and-financial-inclusion>

Financial Services Apps in India

TECHNICAL GUIDE | Anand Raman and Gabriel White

Smartphone applications offer a powerful tool for financial service providers to offer services to their customers, if done right. CGAP reviewed six smartphone apps currently available in India to find out what design elements are essential to fully deliver on the promise of marrying a financial service with a smartphone interface.

<http://www.cgap.org/publications/financial-services-apps-india>

Development Finance Institutions and Financial Inclusion

FOCUS NOTE | Louise Moretto and Barbara Scola

It is time for DFIs to adopt an alternative approach to financial inclusion that prioritizes needed market changes. A shift to a market systems approach addresses this need and requires that DFIs carefully analyze each market to determine the key gaps, underlying causes, critical actors, and theory of change for bringing about sustainable market development.

<http://www.cgap.org/publications/development-finance-institutions-and-financial-inclusion>

Financial Inclusion Measurement in the Arab World

WORKING PAPER | Nadine Chehade, Antoine Navarro, Yisr Barnieh, and Habib Attia

CGAP is working with the Arab Monetary Fund and its task force, the Alliance for Financial Inclusion, and GIZ, among others, to advance the measurement of financial inclusion in the Arab world. This paper explores the landscape of measuring financial inclusion in the region.

<http://www.cgap.org/publications/financial-inclusion-measurement-arab-world-0>

India's Push for Financial Inclusion

BRIEF | Leena Datwani

This Brief looks at India's financial inclusion effort—the Prime Minister's Jan Dhan Yojana (PMJDY) program—over the two years since its launch in August 2014.

<http://www.cgap.org/publications/india-push-financial-inclusion>

Market Facilitation to Advance Financial Inclusion

WORKING PAPER | Alice Nègre

Through two programs and in partnership with a series of market actors, USAID helped change the microfinance market dynamics in the Philippines from a specialized activity with limited outreach and highly dependent on subsidized credit to a more inclusive and robust market-driven segment of the financial sector.

<http://www.cgap.org/publications/market-facilitation-advance-financial-inclusion>

2016 CGAP Annual Report

ANNUAL REPORT | CGAP

This report documents CGAP's progress and activities in Fiscal Year 2016.

<http://www.cgap.org/publications/2016-cgap-annual-report>

Digital Finance Interoperability & Financial Inclusion: A 20-Country Scan

WORKING PAPER | Pablo García Arabéhéty, Greg Chen, William Cook and Claudia McKay

Interoperability—the ability for different systems to connect with one another—is attracting a lot of attention among digital finance experts. This paper presents findings from a 20-country scan conducted in 2016 to assess the state of interoperability in select markets around the world.

<http://www.cgap.org/publications/digital-finance-interoperability-financial-inclusion>

Taking Stock: Recent Trends in International Funding for Financial Inclusion

BRIEF | Matthew Soursourian and Edlira Dashi

CGAP's annual Cross-Border Funder Survey found that new commitments in 2015 increased total funding for financial inclusion to \$34 billion. Between 2013 and 2015, about one-third of funders reduced their portfolios, while the remainder maintained or increased their commitments.

<http://www.cgap.org/publications/taking-stock-recent-trends-international-funding>

Eliminating Extreme Poverty: Comparing the Cost-Effectiveness of Livelihood, Cash Transfer, and Graduation Approaches

FORUM | Munshi Sulaiman, Nathanael Goldberg, Dean Karlan, and Aude de Montesquiou

Continued reduction of extreme poverty will require targeted interventions to help the poorest increase their standard of living. Effective social protection programs are critical to this effort. Livelihood development programs, lump-sum cash transfers, and graduation programs have the potential to help the very poor increase incomes to move out of extreme poverty.

<http://www.cgap.org/publications/eliminating-extreme-poverty>

Graduation Pathways: Increasing Income and Resilience for the Extreme Poor

BRIEF | Syed M. Hashemi and Aude de Montesquiou

Governments and other implementers are showing keen interest in innovations to adapt the graduation approach to additional vulnerable segments, such as refugees, extreme poor urban households, or disadvantaged youth; to expand the range of income-earning options beyond rural livelihoods; and to improve cost-effectiveness.

<http://www.cgap.org/publications/graduation-pathways>

Customer Centricity and Financial Inclusion

BRIEF | Kiendel Burritt and Gerhard Coetzee

Customer centricity provides significant opportunity for financial inclusion service providers to tackle and overcome the very real challenges that threaten their organizational sustainability and growth. Here are some lessons learned from other industries.

<http://www.cgap.org/publications/customer-centricity-and-financial-inclusion>

Digital Finance and Innovations in Financing for Education

WORKING PAPER | Lauren Braniff

Innovations in digital finance can play a role in the Sustainable Development Goals' aim to "ensure inclusive and equitable quality education and promote lifelong learning opportunities for all."

<http://www.cgap.org/publications/digital-finance-and-innovations-financing-education>

Deposit Insurance and Digital Financial Inclusion

BRIEF | Juan Carlos Izaguirre, Timothy Lyman, Claire McGuire, and Dave Grace

This Brief summarizes issues relevant to deposit insurance arising from emerging digital stored-value products and offers three distinct approaches for countries to consider.

<http://www.cgap.org/publications/deposit-insurance-and-digital-financial-inclusion>

Market System Assessment of Digital Financial Services in WAEMU

WORKING PAPER | Multiple Authors

This study aims to map the market system for DFS in WAEMU, identify systemic constraints or root causes that explain why the DFS market is currently not serving the needs of low-income populations, and identify opportunities for triggering systems-level change.

<http://www.cgap.org/publications/market-system-assessment-digital-financial-services-waemu>

Financial Inclusion for the Rural Poor Using Agent Networks in Peru

WORKING PAPER | CGAP & Innovations for Poverty Action

This working paper explores how installing branchless banking agents and implementing financial trust workshops in Peru impacts JUNTOS users' attitudes towards the formal financial system and, in turn, their savings behavior within it.

<http://www.cgap.org/publications/financial-inclusion-rural-poor-using-agent-networks-peru>

When Is Microcredit Unsuitable?

WORKING PAPER | Vaishnavi Prathap and Rachit Khaitan

Rapid expansion in the microfinance sector has been credited with advancing financial inclusion in India. This paper addresses what might constitute a loan mis-sale and seeks to inform the use of suitability guidelines for lending to low-income households by microfinance institutions, self-help groups, and various banks.

<http://www.cgap.org/publications/when-microcredit-unsuitable>

Business Challenges Booklet

OTHER | CGAP Customer & Provider Solutions Team

Customer centricity allows organizations to better serve customers and solve the most common business challenges of acquisition, retention, and expansion. The booklet offers guidance on how to overcome these issues and offers examples from other organizations.

<http://www.cgap.org/publications/business-challenges-booklet>

Customer Experience Toolkit

OTHER | CGAP Customer & Provider Solutions Team

Financial service providers have a great opportunity to create value by designing and delivering customer experience based on a granular understanding of needs. This toolkit equips organizations to create empowering customer experiences.

<http://www.cgap.org/publications/customer-experience-toolkit>

Customer Segmentation Toolkit

OTHER | CGAP Customer & Provider Solutions Team

Financial service providers have traditionally categorized low-income customers into a single market segment. This toolkit helps FSPs identify subsets of customers that have common needs, interests, and priorities—and then to design and implement targeted strategies.

<http://www.cgap.org/publications/customer-segmentation-toolkit>



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FINANCIAL STATEMENTS

CGAP is housed in the World Bank's Finance and Markets Global Practice and operates within the World Bank's legal, financial, and administrative environment. It follows the World Bank's fiscal year, which ends on June 30. These financial statements are unaudited. All CGAP trust fund resources are subject to the World Bank Group's annual single audit exercise. Transactions underlying these statements are reviewed as part of the World Bank Group's ongoing quality assurance mechanisms.

KEY FINANCIAL RESULTS FOR FISCAL YEAR 2017

Donor Contributions: Donor Contributions in FY 2017 totaled \$26.7 million, of which \$13.4 million was core contributions and \$13.3 million designated contributions. The current projection for total member contributions to CGAP V is \$125.8 million, or 104 percent of the CGAP V Strategic Framework Target of \$121 million. This reflects the generous support received during FY16 and FY 2017, bringing significant additional contributions. Assumptions are that CGAP will receive all pledged amounts and that the current pipeline will fully materialize. Note: member contributions are comprised of pledges made for a given fiscal year. They do not necessarily reflect cash received since donors may choose to prepay multi-year pledges in one year. On the other hand, a member might pledge a contribution for a given fiscal year, and launch the process for making the cash payment, but payment might be received only after June 30, the close of the fiscal year.

The increase in contributions from the preliminary CGAP V Strategic Framework Target was the result of additional pledges from the Bill & Melinda Gates Foundation, the Mastercard Foundation, the United States (USAID), Citi Foundation, Germany (GIZ), the African Development Bank, Luxembourg, and IFAD.

Expenses: Operating expenses in FY 2017 totaled \$30.0 million, or \$4.3 million more than FY16. The increase reflects accelerated delivery in a number of programmatic areas that are fully funded for FY 2017 and FY 2018 from core and designated funding. At the same time, some significant savings are achieved in the budget that supports corporate and other activities, for which projected budget utilization is 92 percent. Customers Pillar budget utilization was 22 percent above original FY 2017 budget, or \$1.4 million in absolute terms. This is a result of accelerated implementation of work plans in the Customers at the Center, Smallholders and Digital Finance pillars that are fully supported through Core and additional Designated funding. Policy Pillar budget utilization was 22 percent above original FY 2017 budget, or \$0.8 million in absolute terms, reflecting further integration of the Global

Policy Architecture and Protecting Customers work. Inclusive Markets budget utilization was 2 percent above the original FY 2017 budget, or \$113,000 in absolute terms. Budget utilization in other corporate pillars and functions was within the projected FY 2017 budget results and in some cases significant savings were achieved.

Cash Balance: The cash balance across all CGAP funds totaled \$33.6 million at end- FY 2017, which also includes the advance payments received in the period FY 2014–FY 2016 for the full CGAP V cycle, as well as contributions for FY 2019 and FY 2020.

FISCAL YEAR 2018 OUTLOOK

FY 2018 is the last year of the CGAP V Strategy, and the work program will focus on the delivery of agreed implementation targets as well as on laying the foundation for a successful transition to CGAP VI. Thanks to the solid funding base provided by CGAP members and additional staff resources, CGAP successfully implemented all activities planned in FY 2017. At the same time, we are deeply aware that many CGAP members face challenging fiscal and business environments, and foreign exchange risk for non-U.S. dollar-denominated contributions remains a potential concern. Funding balance at the end of FY 2017 (\$33.6 million) is sufficient for implementation of the FY 2018 Workplan and transition to the CGAP VI Strategy cycle.

The FY 2018 budget envelope is \$30.6 million, which represents an increase of 7 percent compared with the \$28.5 million approved for FY 2017. Driving this increase is planned implementation of CGAP's technical work, where the budget is projected to increase from \$23.4 million in FY 2017 to \$25.3 million in FY 2018. FY 2018 allocation of \$5 million for functional cross-support is slightly less than the FY 2017 allocation of \$5.1 million.

The Customer and Provider Solutions Pillar's projected budget for FY 2018 is \$6.7 million, which represents a 3 percent increase over FY 2017, primarily focused on the Digital Finance Frontiers work. The Policy Pillar's budget for FY 2018 is planned at \$4.5 million level, a 26 percent increase over FY 2017, which reflects a renewed focus on policy work at both the global and country levels, as well as greater integration with the work of the Inclusive Markets teams in the field. This budget includes some final support to transition the Graduation work to a new platform in the World Bank. The FY 2018 budget for the Inclusive Markets work is set at \$6.6 million, a 3 percent increase over FY 2017, and represents a combination of a number activities, two of which are ending in FY

2018 (Mastercard Foundation funding for WAEMU and GIZ funding for work on refugees in Jordan). The Funder Guidance and Gateway Academy Initiatives will have an FY 2018 budget of \$3.8 million, representing a 15 percent increase over FY 2017, with a significant increase coming from planned and already committed activities related to the implementation of Gateway Academy's IT platform.

In terms of FY 2018 budget allocation by expense categories, the main increase is due to staff costs.

For FY 2018 the World Bank is increasing the rate charged to donors for institutional benefits (pensions, insurance, etc.) from the current 50 percent to 70 percent of total staff costs. The current rate has not changed since FY 1999. The new rate will reflect new market conditions, and particularly the impact of rising health care costs and moderate pension account asset returns over time. This decision was made by the World Bank's Board in response to the World Bank's new Cost Recovery Framework for Trust Funds, endorsed by the Board in FY 2015, which included: (a) increased Trust Fund fees, (b) increased indirect rate on personnel financed by trust funds, and (c) full recovery of staff benefits costs. The new framework had been previously communicated to development partners and the Board of Governors. CGAP expects that this will have a \$1.6 million impact on its operating budget in FY 2018.

EXPLANATORY NOTES ON CGAP FY 2017 FINANCIAL RESULTS

Basis of Accounting. CGAP reports its financials on an accrual basis. This gives the reader a more accurate understanding of CGAP's financial position by showing funds approved for grants and initiatives separately from funds available for ongoing operations and future commitments. Resources approved for grants and initiatives are shown as expensed in the year of approval. Revenue from donor pledges is recognized when written notification of a donor's intent to process a contribution is received. In most cases, pledges are fulfilled during the fiscal year in which they were made. Sometimes they are received in the following year(s). These unaudited financial statements are prepared on a historical cost convention, and are denominated in U.S. dollars.

Contributions from Donors. Core and Designated Donor contributions (including funds that have not yet been received where contribution agreements are being processed by the donor), interest income and foreign exchange gains are included in CGAP's revenues. Per CGAP's Charter, core (unrestricted/undesignated) funding is a criterion for membership and all members are expected to contribute core funding in order to enable CGAP to carry out its operations. Once donors have made core contributions, they can make, in exceptional cases, contributions intended for a specific/designated purpose, to the degree that the proposed activities are consistent with CGAP's overall strategy and framework. Amounts of donor contributions to CGAP's core funds can be found in the table on CGAP Donor Contributions FY 2014–FY 2018.

Statement of Cash Inflows with Projected Expenses shows all cash inflows and projected and actual expenses for a given fiscal year.

Operating Expenses. Operating Expenses comprise the following:

- Staff Salaries and Benefits of direct-hire CGAP staff.
- Office and Occupancy and staff-related IT support costs including space, equipment, supplies, and other overhead expenses.
- Web-related IT support includes website development and maintenance, CGAP's intranet services, backend database support for project data, monitoring and evaluation, and market intelligence.
- Consultant fees related to fees paid to individual short-term consultants for their work on delivery of CGAP program and related support activities.
- Travel expenses are expenses related to delivery of operational and corporate activities including delivery of advisory work to clients, participation in external and internal events, CGAP-hosted meetings, visits to donors and funders, etc.
- CGAP support to eligible partners.
- Contractual and Firm services are related to fees paid to companies for their work on delivery of CGAP program and related support activities.
- Administrative Fees are the fees levied by the World Bank for all trust fund contributions to help defray costs associated with establishing and administering donor contributions. In FY 2016 the World Bank decided to replace marginal costing by a full absorption costing approach which, given the importance of external funds, is more appropriate. Starting on January 1, 2016, all new donor trust funds will have applied a 17 percent indirect rate based on personnel costs for staff and consultants. In the case of CGAP, the new Trust Fund Indirect Policy will mean that the costs of the central World Bank Units like Legal, HR, Accounting, Budget staff support (one GE dedicated Financial Analyst), Information technology, and most importantly, CGAP office rental costs will be covered through a 17 percent fee on CGAP staff salary and STC/T fees (individual consultants).

Operating Reserves. Operating Reserves are funds available for ongoing operations and future commitments. Given that CGAP does not generate revenue, an operating reserve is maintained to cushion potential effects of delays in donor contributions and to allow an orderly wind-down of CGAP activities should member donors decide to discontinue CGAP's operations in its present form. Our practice is to target operating reserves at a level that would sustain at least six months of operating costs.

Bank Balances. Bank Balances on hand represents CGAP's cash balances available for new allocation at the end of the fiscal year.

CGAP MEMBER CONTRIBUTIONS

in US dollars ('000)
As of June 30, 2017

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
DETAILS: CORE CONTRIBUTIONS							
African Development Bank	120	—	100	100	100	—	—
Australia	927	848	738	380	383	—	—
Bill & Melinda Gates Foundation	6,500	4,000	4,882	5,500	3,500	2,483	—
Canada	273	227	227	227	—	—	—
Citi Foundation	250	250	250	250	250	—	—
Denmark	613	654	425	429	488	488	488
European Commission	—	565	2,844	—	2,550	2,550	—
European Investment Bank	272	227	224	212	225	—	—
Ford Foundation	295	200	—	—	—	—	—
France / AFD / Treasury	520	488	477	477	477	—	—
Germany / BMZ	544	—	559	704	350	—	—
IADB / MIF	100	100	—	50	—	—	—
IFAD	500	500	500	—	900	450	450
IFC	450	—	—	—	—	—	—
Italy	—	—	—	—	300	—	—
Japan	300	300	300	300	300	—	—
Luxembourg	541	337	453	435	400	—	—
The Mastercard Foundation	1,000	1,000	1,000	1,000	1,000	—	—
MetLife Foundation	167	167	167	175	175	—	—
Michael & Susan Dell Foundation	100	175	—	350	175	—	—
Netherlands	1,000	1,000	1,000	1,000	1,000	—	—
Norway	340	340	288	293	289	—	—
Omidyar Network	—	—	600	300	300	300	—
Sweden	978	978	706	706	706	—	—
Switzerland / SDC	330	265	261	257	257	—	—
UNCDF	125	—	200	—	—	—	—
United Kingdom	—	1,574	1,526	1,224	1,457	1,570	—
United States	400	—	1,400	700	400	—	—
World Bank	1,600	1,600	—	—	—	—	—
World Bank	1,600	1,600	—	—	—	—	—
Subtotal Core Contributions	18,244	15,793	19,128	15,069	15,982	7,841	938
DETAILS: DESIGNATED CONTRIBUTIONS							
Australia (EFO)	200	—	—	—	—	—	—
Bill & Melinda Gates Foundation	—	—	—	3,818	3,192	1,668	—
Bill & Melinda Gates Foundation (EFO)	—	—	750	—	—	—	—
Citi Foundation (Asia)	—	—	340	—	250	—	—
Germany / GIZ (EFO)	134	—	437	—	—	—	—
The Mastercard Foundation (EFO)	—	—	100	—	—	—	—
The Mastercard Foundation	2,391	—	1,836	4,191	1,658	—	—
The Mastercard Foundation (Gateway Academy)	—	2,651	1,420	2,777	2,023	975	—
Switzerland / SECO (Ghana DFS)	—	—	80	470	1,392	110	—
United Kingdom (HIFI)	—	1,488	2,553	1,891	2,331	1,858	567
United Kingdom (Tech Program & EFO)	2,136	966	—	—	—	—	—
Germany / BMZ GPFI.org	—	—	—	—	150	—	—
Subtotal Designated Contributions	4,860	5,104	7,517	13,146	10,997	4,611	567
Total	23,104	20,898	26,645	28,215	26,979	12,452	1,505

Notes:

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

Contributions received are shaded and bolded.

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

FY 2017 FINANCIAL UPDATE IN US DOLLARS ('000)

	FY 2016 July 2015–June 2016	FY 2017 July 2016–June 2017
Cash Inflows		
Cash balance at the beginning of fiscal year	34,562,942	36,376,329
FY16 donor contributions received thru June 2016	26,760,912	—
FY17 donor contributions received thru June 2017	—	26,748,515
External Funded Output budget received	1,287,487	556,430
Interest Income	152,263	282,147
Total Inflows	62,763,605	63,963,421
Expenses by Expense Category		
Staff Salaries & Benefits	10,248,329	11,423,875
Field Assignment Benefits	373,901	219,000
Office occupancy and staff-related IT support	(3,437)	87,108
Web-related IT support	169,900	602,429
Consultant fees	4,338,881	5,834,046
Travel Expenses	2,662,789	3,141,538
Grants	—	100,000
Contractual / Firm services	7,518,093	8,388,569
Other operating expenses	441,822	249,107
Total Expenses	25,750,276	30,045,672
Administrative Fee	637,000	297,779
Total Expenses including Administrative Fee	26,387,277	30,343,451
<i>Cash balance at the end of fiscal year</i>	<i>36,376,329</i>	<i>33,619,969</i>

FY 2017 FINANCIAL UPDATE IN US DOLLARS ('000)

Expenses	FY 2016 July 2015–June 2016	FY 2017 July 2016–June 2017
Strategic Priorities/Initiatives		
Understanding Demand to Effectively Deliver for the Poor	3,728,470	3,242,983
<i>Customers at the Center</i>	3,314,264	2,683,075
<i>Graduating the Poor</i>	414,206	559,908
Innovating for Smallholder Families	3,148,236	2,504,118
Developing Robust Provider Ecosystems	6,830,008	8,768,222
<i>Inclusive Payments Ecosystems</i>	5,120,262	6,060,056
<i>Digital Finance Frontiers</i>	1,406,907	2,340,164
<i>Digital Finance +</i>	302,839	368,002
Building an Enabling and Protective Policy Environment Globally	2,580,317	3,817,868
<i>Global Policy Architecture</i>	1,346,913	1,829,762
<i>Protecting Customers</i>	1,233,404	1,988,106
Promoting Effective and Responsible Funding for Financial Inclusion	973,630	1,675,600
<i>Guidance for Funders</i>	852,266	825,612
<i>Measuring Market Development</i>	121,364	849,988
Regional Representatives	651,902	454,559
Knowledge Product Dissemination & Community Building	4,145,400	5,217,004
<i>Communications & Publications, incl printing & translation</i>	1,646,936	1,651,521
<i>Microfinance Gateway</i>	604,861	608,368
<i>Information Technology Platform</i>	860,085	959,057
<i>Gateway Academy</i>	1,033,519	1,998,058
Cross-Initiatives Work/Strategy and R&D	1,098,392	1,251,242
Subtotal Strategic Priorities/Initiatives	23,156,355	26,931,596
Corporate & Other		
Boulder Scholarships	91,200	106,248
CG/Excom Meeting	84,659	225,276
Staff Training & Retreats	13,656	10,189
Management, Administration, and Other	2,404,406	2,672,364
Grant to MIX	—	100,000
Subtotal Corporate & Other	2,593,921	3,114,076
Total Program Expenses	25,750,276	30,045,672
Administrative Fee	637,000	297,779
Grand Total including Administrative Fee	26,387,277	30,343,451

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**As of December 31, 2017*



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