ADVANCING FINANCIAL INCLUSION TO IMPROVE THE LIVES OF THE POOR

ANNUAL REPORT 2013

CGAP

ABOUT CGAP

The Consultative Group to Assist the Poor (CGAP) works toward a world in which everyone has access to the financial services they need to improve their lives.

CGAP's 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 develops innovative solutions for financial inclusion through practical research and active engagement with financial service providers, policy makers, and funders.

Established in 1995 and housed at the World Bank, CGAP combines a pragmatic approach to market development with an evidence-based advocacy platform to advance poor people's access to finance. Our global network of members includes over 30 development agencies, private foundations, and national governments that share a common vision of improving the lives of poor people with better access to finance.

CGAP'S STRATEGY

CGAP organizes around five-year strategy plans. CGAP's past five-year strategy (CGAP IV) centered around the objective to help build financial systems that work for the poor by developing local, deposit-driven, financial markets.

This Annual Report presents CGAP's work in Fiscal Year 2013 (1 July 2012 through 30 June 2013), the last year of the previous five-year strategy framework. Following the introduction, the remainder of the Annual Report describes CGAP's achievements according to the key strategic areas set forth by CGAP's members for the FY2009–FY2013 timeframe, along with a focus area around clients added two years ago.

CGAP's new five-year strategy (CGAP V) for FY2014–2018 was approved at CGAP's annual meeting in May 2013 by the Council of Governors, following a 15-month-long consultation process during which more than 300 stakeholders, including CGAP member institutions and its Executive Committee, have contributed their thoughts and insights. A preview of the strategic priorities under CGAP V is presented in the Letter from the Executive Committee Chair and the Introduction of this Annual Report.

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LETTER FROM THE EXECUTIVE COMMITTEE CHAIR

The past five years have been tumultuous in the financial world, underscoring the need for organizations like CGAP to strive even harder to catalyze financial access for the world's poor who are often cut off from such services. Indeed, CGAP has helped shape the increased understanding of many policy makers and regulators that more equitable access to finance is inextricably linked to both economic and political stability.

CGAP's extensive work is behind numerous financial inclusion initiatives, and it is frequently an incubator for innovative ideas, which are then spun off and taken to scale, often below the radar. All of this is done with an eye on emerging, new technologies and ensuring that providers play a responsible role in promoting client access and usage of these services. The beauty of CGAP is that it is a neutral global partnership with the ability to "crowd in" other important players to advance financial market development. CGAP's work with service providers, donors, and investors has rightly focused on improving internal systems and promoting standards for responsible funding.

Understanding clients, and particularly those at the base of the economic pyramid, is central to CGAP's work. This customer-centric bias has been carried over to CGAP's next five-year strategic plan. I was immensely impressed by the process in pulling together **CGAP V,** which included 15 months of intense consultations with over 300 stakeholders worldwide.

The bottom line of CGAP V is that the financial services delivered to poor people must make their lives better. An important new focus in the next five years will be to look in depth at financial innovation for smallholder families. Smallholder families constitute the largest client segment, by livelihood, living on less than $2 a day. As a starting point, we need to better understand smallholder families' complex financial lives, not only as agricultural producers but also as entrepreneurs, laborers, and consumers with unique financial needs. Once we better understand this landscape, the hope is that there will be new solutions to the key obstacles in viably reaching the rural poor—product design, service delivery, and risk management.

As chair of the Executive Committee, I am very much proud of the work CGAP is doing, as a frontier organization, to reach our goal of global financial inclusion. An **estimated 2.5 billion people** around the world still do not have access to formal financial services, and much remains to be done. I have no doubt that the next phase in CGAP's history will add to the growing momentum behind financial inclusion and propel many more on the path to realizing inclusive growth and equitable prosperity.

Kazuto Tsuji, *CGAP Chair*

CGAP has helped shape the increased understanding of many policy makers and regulators that more equitable access to finance is inextricably linked to both economic and political stability.

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INTRODUCTION

The close of Fiscal Year 2013 is an appropriate time to reflect back on the past five years. CGAP, founded in 1995, organizes around five-year strategy plans. Our Strategy IV covered FY2009–2013 and built on the focus areas of previous stages—helping to prove the concept of microfinance, scaling success and professionalizing the industry, supporting a broader range of services, and more recently, advancing technology-enabled new business models and promoting a responsible finance agenda.

A LOOK BACK

While the whole story is more complex, the past five years were arguably characterized by four big developments that helped our community to learn, improve, and advance its work.

The microcredit roller coaster. For the more traditional microfinance community, the past five years were like riding a roller coaster. It started on a peak, in the afterglow of the UN Year of Microcredit in 2005 and the Nobel Peace Prize for Grameen Bank and Muhammad Yunus in 2006. These showcased one particular aspect of microfinance, microcredit—the idea that small amounts of short-term capital can help poor people in the informal economy engage in productive activities and grow their way out of poverty. The early success of microcredit, in particular through innovations such as group collateral, proved the concept that financial services can be provided to the poor at scale in a sustainable fashion.

However, by the late 2000s, the microcredit industry, with its focus on short-term loans, had reached market saturation in several high-growth markets, which led to episodes of over-supply and over-indebtedness. The 2010 crisis in the southern Indian state of Andhra Pradesh marked the low point on the roller coaster. Rising debt stress among tens of thousands of clients brought on by the rapid parallel growth of microcredit, the state-sponsored self-help group movement, the banking sector, and even traditional moneylending, led the state government to essentially shut down the commercial microfinance sector.

But even before this crisis, the global microfinance community had realized the need to re-focus on the more comprehensive financial needs of clients in general and on consumer protection and responsible finance in particular.

In 2008, microfinance industry leaders from around the world started putting together the Client Protection Principles—general standards of responsible treatment that clients should expect to receive. The Smart Campaign was created in 2009 to implement these principles. It grew to a global campaign with over 2,900 signatories committed to embedding client protection practices into the institutional culture and operations of the microfinance industry. Other efforts include the work of the Social Performance Task Force, which establishes standards and good practices for social performance management, and the Principles for Investors in Inclusive Finance, which provides a framework for responsible investment in inclusive finance.

More recently, there has been somewhat of an upswing on the microcredit roller coaster. In the aftermath of the global financial crisis that began in 2008, policy makers have rediscovered the importance of "access-to-finance" to create jobs and generate economic activity. And today there is growing recognition and acceptance among policy makers that the broader notion of financial inclusion is key to a stable economic system as a whole.

A better understanding of the financial reality of the poor. Over the past five years we gained a deeper understanding of the economic and financial lives of the poor. While credit is part of this picture, we know that poor people also need access to savings, insurance, remittances, loans, and many other financial services. And as the financial diary literature indicates, the poor do use the full range of these services. Poor people are very active managers of their financial lives because they have to be—they are vulnerable and have no margin for error. Financial diaries also confirmed that decision-making in poor households is complicated. The poor live and work in the informal economy and have to fend for themselves—not by choice, but by necessity. In economic terms, they are producers and consumers at the same time. As a result, they need access to a full range of financial services to create livelihoods, to build assets, to manage risks, and to smooth consumption.

While gaining insights into the complex financial lives of the poor is important, translating this knowledge and understanding of client needs and behavior into better products and policy approaches is another challenge that the industry has been grappling with over the past years. We need to translate our knowledge of how the poor manage their financial lives into new products and delivery models that work better for them.

New business models—reaching more people at lower cost. New champions of financial inclusion have emerged over the past five years. They often leverage advances in technology to pioneer financial services to low-income customers. Technological innovations, in particular mobile phones, promise to reach more people than ever at lower transaction costs with a broader range of products. The most iconic example of this development is M-PESA in Kenya, which by now has 16 million registered users. Cash deposits into the system last year amounted to 22 percent of gross domestic product. M-PESA reaches 90 percent of the poor in Kenya, for whom access has shown to provide tangible welfare benefits.

But M-PESA is not the only example of success. There are now several mobile money deployments reaching scale around the world—particularly in other parts of East Africa and in Asia. There are also other new champions beyond mobile phone operators, such as retailers. For example, OXXO in Mexico has more than 10,000 small convenience stores across the country, making a total of 7.5 million customer transactions per day. Their customer base is made up of nearly 40 percent of low-income households. When the Mexican Bank Bancomer struck an arrangement with OXXO, Bancomer's number of access points in the community increased fivefold overnight.

Former nongovernment organization (NGO) microfinance institutions (MFIs) that transformed into fully regulated banks represent another group of new champions. For example, in Kenya, Equity Bank today accounts for half of all deposit accounts in the country. In Cambodia, 60 percent of all deposit accounts are with Acleda Bank. These transformed MFIs have introduced modern retail banking to the lower-income population of their domestic markets for the first time.

New global and national policy agendas. In terms of an enabling environment, policy makers globally recognized over recent years that financial *exclusion* is a risk to political stability that impedes economic advancement, while, on the other hand, financial *inclusion* presents an opportunity to improve lives. In 2009, G20 Leaders put financial inclusion on their development agenda. The global financial standard-setting bodies (SSBs) started changing their guidance to respond to the need to facilitate financial inclusion. In addition, there has been a recent groundswell of southern leadership beyond the emerging market countries in the G20. The Alliance for Financial Inclusion organized leaders from 40-plus developing countries and emerging markets, with a combined population of 1.7 billion, to commit to advancing financial inclusion domestically because they realize that an inclusive financial system that reaches all its citizens is important for economic and social progress.

Momentum is growing behind financial inclusion both globally and at the national level. Rwanda, for example, has recently reported a doubling in formal financial access from 21 percent of adults in 2008 to 42 percent in 2012. And its goal is now 80 percent formal inclusion by 2017. The policy momentum is paving the way for real progress to be made on financial inclusion in the coming years.

CGAP'S INFLUENCE OVER THE PAST FIVE YEARS

As a global partnership working for the public good, CGAP played a proactive role in shaping and adapting to the developments over the past five years. For example, CGAP was an early proponent in accelerating new business model innovation to reach more people at lower costs. As technology-based solutions emerged and were tested over recent years, CGAP was an early leader in exploring various business models and generating new knowledge on branchless banking as a way to overcome some barriers to financial inclusion. We supported new players to the area of financial inclusion while at the same time influenced key policy makers and regulators and motivated them to consider branchless banking and other new ideas as possible solutions to increasing financial access for the poor.

We helped to develop a number of viable models for financial services for the poor, many of which are being adopted by mainstream financial service providers, in line with CGAP's advice. One example is CGAP's pioneering work in Pakistan in 2009 with mobile operator Telenor and Tameer Microfinance Bank to launch easypaisa, the country's first branchless banking service, which now processes well over 2 million transactions a month in bill payments and money transfers.

In the final two years of the Strategy IV period, we amended the strategy to include a renewed focus on the clients themselves—and our need to understand *their* financial needs better. We championed the need to refocus on client-centric solutions, based on recognizing the different needs of different segments of the poor. In particular, we sought to better understand how to reach two specific underserved segments: the extreme poor and youth.

Recognizing that microfinance is not a cure-all and isn't always the most appropriate solution for all poor households, particularly those that are among the poorest, CGAP began to explore new models on how to help poor families graduate out of extreme poverty and into sustainable livelihoods. Through the CGAP–Ford Foundation Graduation Program—a global effort to understand how safety nets, livelihoods training, and microfinance can be sequenced to create a pathway for the poorest out of extreme poverty—we have gained greater knowledge on the lives of the poorest and what it takes to address their needs. Similarly, CGAP's work around youth has focused on the role that financial services, and savings in particular, play in the lives of a growing and often disenfranchised demographic group—the estimated 1.2 billion young people ages 15–24 in the developing world.

In many ways, CGAP's commitment to a deeper understanding of poor clients and to the responsible delivery of appropriate services is a common theme throughout all of our work.

Advancing financial inclusion through a better understanding of the lives of the poor must be grounded in rigorous data, so that progress can be measured objectively and credibly. We have supported, and continue to support, several initiatives to strengthen the global data architecture on financial access. Through our involvement with the G20's Global Partnership for Financial Inclusion (GPFI), we have supported creation of the Basic Set of Financial Inclusion Indicators, which aims to promote harmonization of indicators and their definitions to make cross-country comparisons possible. CGAP also continues to collaborate closely with the Microfinance Information Exchange (MIX), a data service on the performance of MFIs.

At the policy level, CGAP helped to shift global and national policy agendas toward a new balance between financial inclusion and stability. We were early in our support to global and national-level policy makers, for example, as early as 2010 in the G20 context and with the global financial SSBs, as they turned their attention to building inclusive financial systems. As an Implementing Partner of GPFI, CGAP has supported the G20's growing role in promoting financial inclusion globally. Inspired by the G20's call for relevant global SSBs to consider how they can contribute to encouraging financial inclusion, the five main SSBs have explicitly recognized the compatibility of financial inclusion with their core mandates. Many SSBs have also taken concrete steps on financial inclusion in the past years, and CGAP collaborated on many of these steps.

CGAP'S PRIORITIES FOR THE NEXT FIVE YEARS

Now that we've reached the end of the Strategy IV period, we can feel confident that our work has led to a better understanding of the aspirations and needs, preferences, and behaviors of poor households. An increasing number of financial services providers and new entrants to the field are newly motivated to explore different business models and innovations to reach this client segment. And policy makers understand that pursuing and advancing financial inclusion will benefit people and economies at every level.

CGAP's **Strategy V** period promises to build on all the lessons learned throughout the previous years to make further, steady advances to achieve financial inclusion worldwide. Some of the themes outlined in Strategy V echo ones pursued in earlier years, but in this new phase we are taking them to the next level, further stretching ourselves to achieve our vision of a world in which everyone has access to the financial services they need to improve their lives. The following are the highlights of our strategy for FY2014–2018.

Understanding demand to effectively deliver for the poor. To ensure that access to financial services improves poor people's lives, financial inclusion must be client-centric. Over the next five years, we will engage in demonstration work with providers on three priorities: understanding current/potential clients, designing effective organizational delivery, and testing the business case. This work will also include foundational research on clients and a focus on systematically underserved client segments. Considerable energy will be spent on financial inclusion data and garnering evidence on impact—these are important feedback loops to gauge whether we are making progress on advancing financial inclusion and whether access to finance is generating social welfare benefits for the poor.

Seeking financial innovation for smallholder farmers. Our emphasis on smallholder farmers is a new focus for us, but it is a natural outgrowth of CGAP's focus on clients. With an estimated 500 million smallholder farming families around the world, who have not been served fully by financial services, they represent the largest global segment of those living on less than $2 a day. Studying this segment, which struggles with poverty and food security and can benefit most from innovative financial services, will provide important insights and lead us to a better understanding of these families. 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. Little is known about the financial lives of smallholder families—the development world would gain deeper understanding not only through quantitative evidence on cash flows but also through qualitative evidence of client aspirations, preferences, and behaviors.

Developing robust provider ecosystems. Technology-enabled business models have driven down delivery costs of certain financial services; now the task 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. 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. An ecosystem involving multiple providers where each provider plays a specialized role will ultimately close the financial inclusion gap. This is why 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.

Building an enabling and protective policy environment globally. 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. Policy makers worldwide have recognized that financial inclusion plays a key role in achieving broader economic and social development goals. But despite this growing interest in financial inclusion, the challenge is to facilitate a fundamentally different perspective on the role of financial inclusion in broader financial policy making.

With the global financial crisis having called into question the traditional view of financial sector policy, it creates an imperative to explore and better understand the linkages among financial inclusion and the other objectives of financial policy, regulation, and supervision: financial stability, financial integrity, and financial consumer protection. This change in perspective is a prerequisite for policymaker action that creates more enabling and protective policy environments for underserved and unbanked customers. Hence, CGAP's policy agenda focuses on promoting policy and regulatory frameworks for financial inclusion that balance innovation with stability, integrity, and protection. We need to ensure that policy makers—both domestically and through global bodies—understand and optimize the linkages among these policy objectives. CGAP's policy agenda will also focus on promoting policy environments that protect consumers and that are responsive to evolving risk as financial services innovation progresses.

Promoting effective and responsible funding for financial inclusion. The emergence of strong MFIs that serve over 200 million clients has been successful in large part because of 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, can donors and investors do even more to advance financial inclusion? CGAP's financial inclusion funding agenda focuses on helping donors and investors play a catalytic role in responsible market development through effective financing. We will continue to promote standards for responsible funding and effectiveness that have been developed and agreed on over time and add new guidance on practices as they emerge.

THE BOTTOM LINE: IMPROVING LIVES

Our strategy for the next five years will guide CGAP's contributions as we evolve in line with market developments, all the while keeping our steadfast focus on advancing the financial welfare of poor people through financial inclusion. We will work to understand their aspirations and constraints, their preferences and behaviors. Ultimately, we hope our efforts are instrumental in delivering financial services that help poor people improve their lives.

A growing body of empirical evidence shows that access to the right financial service at the right time helps households build assets, generate income, smooth consumption, and protect them from risks. An inclusive financial system that reaches all citizens also allows for more effective and efficient execution of other social policies, for example, in health and education. And at the macro level, deeper financial intermediation in an economy leads to more growth, and less inequality.

The next five years will present their own unique challenges. But there is good reason to believe that real progress can be made toward achieving full financial inclusion during this period. With the awareness of the impact that our collective efforts can have on people's lives, CGAP remains committed to be of service to the broader financial inclusion community.

UNDERSTANDING DEMAND TO EFFECTIVELY DELIVER FOR THE POOR

Part of CGAP's work in FY2013 focused on how better knowledge of the complex financial lives of the poor can be translated into better financial services for them. The lack of a nuanced understanding about poor people's needs, aspirations, and behaviors, and how providers can best serve them, is one hurdle to achieving access to finance. More support for research specifically aimed to deepen understanding of poor and low-income client needs is required.

To meet this need, CGAP launched the "Clients at the Center Financial Inclusion Research Fund" in December 2012. The fund will play a catalytic role by supporting client research focused on understanding client needs and delivering services that respond to those needs. Through the fund, CGAP will support research that reveals new client insights on (1) client needs, preferences, and behaviors, (2) client segments, and (3) client use of informal and formal financial services. We received more than 140 initial proposals, and of those, 14 applicants were invited to submit full proposals. In fall 2013, we will select three to four proposals that best meet our research goals, with research results expected by 2015.

TRANSLATING CUSTOMER INSIGHTS INTO BETTER PRODUCTS AND SERVICES

What is the value of better understanding customers (both actual and potential) for providers? How can providers act on new insights to develop better products and services for diverse customer segments? To help answer these questions, CGAP is bringing together providers, researchers, funders, and policy makers. By offering a platform for knowledge exchange and outreach among a broad group of industry stakeholders, CGAP is helping to shape a greater focus on client-centric approaches.

CGAP chaired the "Addressing Customers' Needs" working group of the Financial Inclusion 2020 initiative of the Center for Financial Inclusion to define what customer-centricity means and why it matters. The event was an opportunity to reach out to industry stakeholders and experts to learn from them and to begin drafting a roadmap on how to systematically learn more about the lives of unserved or underserved customer segments and translate this new knowledge into financial solutions. The roadmap calls for actions around three areas: understanding customers more deeply, improving organizational delivering, and making the economics work. The roadmap is to be launched at the Financial Inclusion 2020 Forum in fall 2013.

CGAP hosted a virtual conference in October 2012, in partnership with MicroSave, that explored how institutions can listen and learn from their customers. The two-day online discussions garnered over 600 comments from participants in 60 countries, including microfinance experts, providers, and researchers. The discussions explored tools for organizations to better understand their clients, and the implications client research have for decision-making, product design, delivery, branding, marketing, and communication. The lively debates focused on three main areas: taking a holistic view of the customer, asking the right questions before launching into client research, and integrating client understanding throughout operations, not just product development.

CGAP offered an oversubscribed half-day workshop on design thinking at the Annual Meeting of the Social Performance Task Force in Panama in June 2013. More than 50 people from global MFIs, microfinance associations, and technical assistance/consulting firms participated in the interactive session, which addressed the Universal Social Performance Standard on designing products, services, and delivery channels that meet clients' needs. This type of workshop is a cost-effective way to build greater awareness and interest in a client-centric approach to organizational effectiveness.

CREATING DEMONSTRATION AT THE COUNTRY LEVEL

Research may yield rich insights about customers but that is not sufficient. The greater challenge is determining how providers can use these insights. By engaging in demonstration work with select providers, CGAP seeks to learn how incentives, processes, and capacity can be hardwired into providers' DNA to have customers' needs drive their product innovations.

In this context CGAP has partnered with Janalakshmi Financial Services, one of India's largest urban MFIs. The partnership, launched in June 2013 includes the following goals: (*i*) redefining client engagement from a transactional approach to a relational approach; (*ii*) developing and implementing systems, processes, tools, and skills to deliver on client-centricity; (*iii*) making a business case for client-centricity blending financial and social objectives; and (*iv*) distilling and documenting the lessons from success and challenges to contribute to the global public good. As a first step, CGAP is working with Janalakshmi to develop a nuanced understanding of current and potential customers, while simultaneously building innovation capability within the organization. A video interview with Ramesh Ramanathan, founder and chairman of Janalakshmi, was featured of CGAP's website following the launch of the project, and progress can be followed through a journal that is accessible on CGAP's Facebook page.

REACHING SYSTEMATICALLY UNDERSERVED CUSTOMER SEGMENTS

Clients are not monolithic. Designing appropriate financial services to address the specific needs of different client segments among the more than 2 billion people worldwide still without access to formal financial services is a huge undertaking. The challenge—and opportunity—is to find ways to divide the market for financial services into meaningful client segments that allow for tailored services based on a more nuanced and deeper understanding of each segment's needs, aspirations, and behaviors.

In FY2013, youth continued to be a priority segment for CGAP. Youth are both a policy and political priority for many countries around the world—a vast majority of the estimated 1.2 billion young people between the ages of 15 and 24 live in developing countries. Youth are particularly vulnerable to economic problems as they often lack access to education and employment. Policy makers are increasingly looking at the role financial services can play to improve opportunities for youth as they transition into adulthood.

To explore policy innovation for youth financial services, CGAP convened a roundtable in March 2013 with policy makers from eight countries. The participants came from a range of different government departments, including ministries of education, finance, youth and sport, as well as central banks. They agreed that youth finance represents a largely untapped opportunity to address social issues in their countries. Participants exchanged their cross-country experiences and strategies on the role of financial services for youth, with many pointing out that governments have an important role in changing the mindset of banks that view youth as a risk to seeing that segment as an opportunity.

Smallholder farmers is another priority segment for CGAP—so much so that it is now a key component of CGAP's strategy for the next five years. With an estimated 500 million smallholder farmers in low- and middle-income countries, they represent the largest global segment by livelihood of those living on less than $2 a day. CGAP's research agenda for smallholder farmers focuses on the role of innovative financial services to help these families improve their lives.

CGAP's first major analysis of smallholder farmers was presented in **"Segmentation of Smallholder Households"** (March 2013), which examines the challenge of providing financial services that support the multiple goals of rural households. It divides this large and diverse population of smallholder farmers into three segments determined by commonalities in how they engage with markets and how those markets are organized. This segmentation framework is an important starting point to recognizing common financial needs and goals so that appropriate financial products can be developed to address those needs.

IMPROVING DATA AND EVIDENCE ON HOW ACCESS TO FINANCIAL SERVICES BENEFIT POOR PEOPLE

Robust data on financial inclusion is a first step to improving the base of empirical evidence on the impact of financial access. CGAP led several initiatives in FY2013 that aimed at improving financial inclusion data and advancing the understanding of the impact of finance on poor people's lives.

As the financial landscape is becoming more complex with an ever wider array of providers and delivery channels, the data architecture for measuring financial inclusion is likewise evolving. To obtain a comprehensive view of access to financial services—payments, savings, credit, and insurance—we need to collect data from more sources, and on a variety of dimensions, including access, usage, and quality.

Now in its fourth edition, the *Financial Access* reports, jointly produced by CGAP and IFC, aspire to use data on an increasing number of financial service providers, thereby offering deeper insight into the state of financial inclusion worldwide. *Financial Access 2012: Getting to a More Comprehensive Picture,* uses eight years of data (2004–2011)—drawing on information from the IMF's Financial Access Survey (FAS) in combination with other relevant data sources—to measure and analyze the current state of financial inclusion. *Financial Access 2012* indicates a clear—albeit still nascent—recovery from the financial crisis, with growth rates of both deposit and loan penetration picking up strongly in 2011. The growth rate of deposit accounts was higher than the growth rate of loan accounts, suggesting that, after the crisis, people's willingness to save may have been greater than their willingness to take on new loans.

CGAP continues to work with the G20's Global Partnership for Financial Inclusion (GPFI), specifically as one of the implementing partners of the GPFI's Data and Measurement Sub-Group. The Sub-Group's work focuses on advancing the data and measurement agenda as a strong base for informed policy action and market knowledge for financial inclusion. In 2012, the Sub-Group developed the Basic Set of Financial Inclusion Indicators, featuring five categories of indicators that measure two dimensions of financial inclusion—access and usage—with a focus on loan and deposit services. Following the endorsement of the G20 Leaders, the Basic Set was officially launched during the Spring Meetings of the World Bank and IMF in April 2013, to help countries achieve their financial inclusion goals by providing a standardized foundation for measuring financial inclusion. Continued efforts focus on expanding the indicators to include measures of quality so as to provide a more complete picture of financial inclusion.

Broader knowledge and evidence on how financial services affect poor people's lives also includes measuring the impact of financial inclusion. While funders are committed to improving the impact evidence base, the challenge for funders and practitioners alike is finding appropriate impact evaluation approaches that are rigorous yet also pragmatic and cost-effective.

CGAP and DFID brought funders and researchers together in January 2013 to discuss impact evaluation. Over 70 people participated in the two-day event; they included 18 CGAP members and researchers from 10 universities, research institutes, and nonprofits. The event featured an overview of monitoring and evaluation frameworks, discussions on different research methods (randomized control trials, quasi-experimental methods, and qualitative methods), and a particular focus on evaluating impact of small enterprise finance, mobile banking, and meso- and macro-level interventions.

ENHANCING ACCESS TO FINANCIAL SERVICES FOR ARAB YOUTH

Arab youth are the least employed and banked worldwide. Their unemployment rate ranges from 19 percent to 25 percent (twice the global average, according to the World Bank), and only 13 percent of those age 15 to 24 hold accounts at a formal financial institution (one-third of the global average according to the Global Findex). Following the Arab Spring movements, many in the region see financial inclusion as a possible route toward greater economic and social stability for youth. The issue is of particular importance given that, in a number of countries in the Middle East and North Africa (MENA), the window of opportunity is still open, and large cohorts of youth will be entering the labor market in the coming decade or two.

In an effort to improve youth access to financial services in the MENA region, CGAP and Silatech jointly organized a workshop on Youth Financial Inclusion aimed at discussing evidence from recent research, early lessons from regional and international programs, and policy options. Held in Rabat in March 2013, the workshop gathered more than 80 representatives from MFIs, regional and international organizations, the donor community, civil society, governments, and think tanks.

Financial services programs targeting youth were found to focus on job creation through credit to start-ups or to existing businesses, and appeared to face similar challenges in keeping operating costs in check, especially when nonfinancial services are offered. Not surprisingly, legal and regulatory constraints were highlighted as a key impediment to offering savings in most countries. Cases from Yemen, where a microfinance-specific law allows deposit-taking, and Morocco, where the Postal network has established the successful Al Barid Bank, proved the tremendous potential in designing youth-specific savings products. In an effort to overcome legal hurdles, innovative delivery channels, such as online platforms, mobile services, or prepaid plastic cards, are increasingly being leveraged to broaden financial access to technologically "connected" youth. Stakes (and hopes) are high as initial global evidence shows that impact varies per type of service but proved consistently higher for youth as compared to other market segments.

CGAP thus plans on pursuing its policy and advocacy work for a more conductive environment, as well as on documenting evidence from research on youth and financial services. Particularly relevant for the MENA region, our work complements efforts stemming from donors and from the international community. Youth issues are gaining global attention, and the United Nations recently appointed its Envoy on Youth, making work with and for youth a top priority for the post-2015 development agenda.

ROBUST PROVIDER ECOSYSTEMS

An estimated 2.5 billion people around the world do not have access to basic banking services, according to the World Bank's Global Financial Inclusion Database (Global Findex). Significant issues regarding distance, quality, and cost of providing financial services to poor people are formidable barriers to developing local economies and reducing poverty overall. CGAP's technology and business model innovation work generates solutions based on global learning; it works to strengthen certain markets, and promote enabling policies and regulations to expand financial services for the poor. This involves making financial services widely available outside of traditional service delivery models through innovative business models that use widely available technologies to reach scale and lower the cost of delivery. Over the past year CGAP's work has focused on seven countries or regions: Brazil, Ghana, India, Mexico, Pakistan, South Africa, and the West Africa Economic Monetary Union (WAEMU).

In fact, the potential of technology-enabled financial business models has been demonstrated in a number of countries around the world, most notably in East Africa where during the past year innovative insurance and credit products were added to digital payments businesses that already reach far more people than traditional financial services models. There is great potential but collaboration across all sectors and providers is essential to make this transition possible. Banks, mobile network operators (MNOs), technology companies, entrepreneurs, retailers, governments, and academia must work together to share best practices. CGAP estimates that, as of FY2013, 127 million people around the world living on incomes of less than US$2.50 per day are using branchless banking services, and that 101 million of these users have access to savings through these branchless banking accounts.

While some branchless banking deployments in other countries are beginning to scale up, operational challenges for providers are still widespread, including distribution, marketing, and client-focused product development. At the same time, some regulators are still struggling to put in place frameworks to enable viable business models. However, countries such as Zimbabwe, Pakistan, Ghana, and Bangladesh showed progress over the past year. This evolution of the industry shows that a larger number of providers are starting to implement sound commercial policies and invest the amounts needed to make branchless banking commercially sustainable. This growth spurt is also starting to create fertile ground for further innovation in other areas that are beginning to leverage branchless banking payments platforms to provide services such as renewable energy, water, health, and education. For example, in Kenya, M-Kopa is using the M-PESA platform for the provision of pay-as-you-go solar energy, and Grundfos Lifelink introduced "Water ATMs," which use tokens powered by mobile money.

GENERATING SOLUTIONS

As much as there is consensus on the need and priority for financial inclusion, stakeholders have multiple—often conflicting—views about which opportunities have the most potential, and the role different actors play in realizing such opportunities. **"Advancing Financial Inclusion through Use of Market Archetypes"** (May 2013) provides a framework that regulators, policy makers, financial service providers, donors, and investors can use to identify the most productive next steps in the markets they focus on. It suggests that countries can be broadly grouped into three market archetypes—distinguished by broad economic, demographic, and policy environment characteristics—that represent three different starting points in the journey to financially inclusive ecosystems.

Two trends in financial inclusion that are widely discussed today are the development of savings products designed specifically for poor clients and the ability to deliver financial products over the mobile phone. The Brief **"The Jipange KuSave Experiment in Kenya"** (October 2012) describes the experience in Kenya with a combined savings and credit product using M-PESA accounts. This product was first developed and tested in Bangladesh to meet poor people's variable savings and credit needs.

Applied Product Innovation (API) work seeks to understand how customer-centric methodologies, such as human-centered design, can be tailored to branchless banking to improve financial service offerings for the poor. Human-centered design puts customers at the center of the product development process, from gleaning insights to concept development all the way through to prototyping and testing. During FY2013, CGAP conducted three projects, one with MTN Mobile Money in Uganda, a second with Bradesco in Brazil, and a third with Bancomer in Mexico. A second generation of API projects to advance learning further is planned.

CGAP has an ongoing project with CAIXA in Brazil to study the financial lives of Bolsa Familia beneficiaries. These include 13.5 million households receiving social benefits. The results and insights from the study will be used to improve CAIXA's communication with this segment about existing products, help with the redesign of current products, and design new products to increase uptake and usage by Bolsa Familia beneficiaries.

Work on government-to-person social payments focused on the transition from cash to electronic payment mechanisms in social protection programs and linking these electronic payments to an account that could become the basis for financial inclusion for the very poor. Projects were initiated in India, Pakistan, and Bangladesh. Business model innovation work included a study conducted jointly with IFC to better understand the nature and drivers behind partnerships between banks and MNOs in Kenya, Ghana, Cambodia, and Pakistan. The goal of the study was to develop guidance about partnerships that are more likely to succeed in delivering financial services to low-income people. Work on understanding the role of retailers leading branchless banking businesses in Mexico and South Africa continued.

A third global mapping of the technology-enabled international remittance space was conducted, identifying new opportunities as well as challenges in the current landscape. The study provided updated statistics on the current number of deployments and followed up on trends and innovations identified in the prior studies to understand how the market has evolved and to identify the remaining critical success factors and challenges for launching and growing. For the first time, the study looked more closely at the remittance sending side because earlier studies suggested it was the senders who selected the money transfer company and how the remittance funds would be received. The study took an end-to-end corridor perspective to better understand how sending companies, intermediaries, and receiving companies (such as MNOs) have together influenced the overall efficiency and effectiveness of remittance transfers.

REGULATION

The policy and regulation component of the Technology Program is organized around three main goals: (*i*) understand how regulatory frameworks enable or discourage new models; (*ii*) formulate guidance on policy and regulation to encourage innovation; and (*iii*) encourage policy makers and regulators to adapt policy/regulation to foster technology-based models. During the past year, CGAP worked with policy makers and regulators in nine countries, two of which CGAP provided extensive commentary on e-money regulation drafts and one of which sought out CGAP expertise for assistance in developing a mobile banking regulatory framework.

CGAP worked in close partnership with the State Bank of Pakistan to further develop the methodology on identifying, managing, and optimizing linkages among inclusion, stability, integrity, and protection known as I-SIP (for more about CGAP's

work on I-SIP, see page 21). The initial approach was developed in South Africa. Pakistan was the first low-income country where the approach was tested and from where policy case examples were used to develop the approach. In addition, the program conducted an industry-wide workshop on interoperability in Pakistan attended by over 100 business and policy leaders. The main goal of the workshop was to share and openly discuss the findings from the FY2012 CGAP interoperability study. In addition, CGAP conducted research in South Africa on the pathways to interoperability in that country and the link to financial inclusion. This research improved our understanding of some key aspects of the structure of the payment systems relevant for interoperability in mobile money and branchless banking.

INCORPORATING FINANCIAL INCLUSION INTO GLOBAL STANDARD SETTING

The standards and guidance of the global SSBs provide the basic framework of country-level regulatory policy. They significantly influence how many poor households get access to what range and quality of formal financial services and at what cost. As an Implementing Partner of the G20 GPFI, and working directly with specific SSBs, CGAP made significant contributions to incorporate consideration for financial inclusion into global standard setting in FY2013. Positive results of this engagement can be seen particularly in actions taken during the year by the Basel Committee on Banking Supervision (Basel Committee), the SSB responsible for standards and guidance for banks and other deposit-taking institutions, and the Financial Action Task Force (FATF), the SSB that issues standards and guidance for fighting financial crime—especially anti-money laundering and combatting financing of terrorism (AML/CFT).

In September 2012, banking supervisors and central bankers representing more than 100 countries endorsed the Basel Committee's revised "Core Principles for Effective Banking Supervision," the global standard for the sound prudential regulation and supervision of banks and banking systems. The Core Principles now explicitly acknowledge financial inclusion as compatible with banking supervisors' core objective of protecting the safety and soundness of banks and the banking sector. Equally fundamental, the concept of proportionate regulation and supervision is now embedded throughout the Core Principles: "By reinforcing the proportionality concept, the revised Core Principles and their assessment criteria accommodate a diverse range of banking systems . . . [and allow] assessments of compliance with the Core Principles that are commensurate with the risk profile and systemic importance of a broad spectrum of banks (from large internationally active banks to small, non-complex deposit-taking institutions)."

Building on this important development, CGAP was appointed Vice-Chair of the Financial Inclusion Workstream of the Basel Consultative Group, the outreach arm of the Basel Committee. The objective of the Financial Inclusion Workstream is to address opportunities and challenges in proportionate prudential regulation and supervision of banks and other deposit-taking institutions that directly serve base-of-the-pyramid customers.

Several developments actively supported by CGAP in FY2013 may even surpass those within the Basel Committee in terms of their importance to financial inclusion. Building on FATF's explicit recognition in 2012 that financial inclusion and financial integrity are mutually reinforcing goals—and that financial exclusion, by relegating excluded customers to the untraceable world of cash, is a money-laundering and terrorist-financing risk—FATF approved an updated Guidance Paper on AML/CFT and financial inclusion as well as a new assessment methodology for the next round of country-level mutual evaluations of FATF compliance at its plenary in Paris in February 2013. The updated Guidance Paper gives country authorities more clarity on how to balance financial inclusion goals with AML/CFT measures. Under the new assessment methodology, financial exclusion is now incorporated as one of the contextual factors for evaluators to consider in assessing the effectiveness of a country's AML/CFT regulatory and supervisory regime. This is a clear signal by FATF encouraging countries to implement measures to reduce levels of financial exclusion among their population. In June 2013, FATF approved updated Guidance on the Risk Based Approach to Prepaid Cards, Mobile Payments and Internet Based Payment Services, which helps clarify for authorities AML/CFT treatment of the innovative delivery channels so key to reducing cost and extending outreach to households not reached by conventional banking and insurance. Throughout FY2013, CGAP provided support and comments to FATF on all three documents to understand how AML/CFT regulation and supervision impact financial inclusion.

The increasing engagement of the SSBs in financial inclusion was also evident in the hosting of the first GPFI Conference on Standard-Setting Bodies and Financial Inclusion by the Financial Stability Institute at the Bank for International Settlements (BIS) in Basel in October 2012. Participants included senior policy makers, regulators, and supervisors from both G20 and non-G20 countries as well as representatives from five of the global SSBs now engaged with the G20's efforts to promote financial inclusion. In opening the conference, BIS General Manager Jaime Caruana highlighted that financial inclusion can be embraced while respecting the core mandates of the SSBs. In its capacity as the lead GPFI Implementing Partner responsible for the SSBs workstream, CGAP led the organization of the conference, which addressed the theme "Promoting Financial Inclusion Through Proportionate Standards and Guidance." Participants discussed the progress and challenges faced by SSBs in engaging in financial inclusion and emphasized the importance of the proportionality principle in developing global standards and guidance relevant to financial inclusion and in implementing policies at the country level.

FINANCIAL CONSUMER PROTECTION

Following the global financial crisis, policy makers are paying closer attention to financial consumer protection. As a result many countries are making a policy shift toward a greater focus on consumer rights, and an increased recognition of the particular challenges faced by poor consumers. Yet there are still significant gaps, especially in developing countries, in understanding the particular consumer protection needs of low-income consumers. CGAP works to bridge these gaps by developing practical knowledge and tools to help policy makers, especially in countries with a low level of financial access, to best address the consumer protection needs and particular challenges of low-income populations. In providing guidance on practical and cost-effective consumer protection policy interventions, CGAP draws on low-income consumers' experience that is informed by insights from behavioral research. In-country collaborations contribute to our global knowledge development process while also feeding back into policy advice to improve consumer protection regimes at the national level.

In FY2013, one example of direct consumer research was CGAP's engagement with Mexico's National Commission for the Defense and Protection of Financial Service Users (CONDUSEF) and the World Bank's Russia Trust Fund on Financial Literacy and Education to gain deeper insight on the quality of information and financial service products offered to low-income customers. Using a "mystery shopping" methodology, trained researchers visited multiple financial institutions looking for both credit and savings products. The findings suggest that staff of financial institutions provide little information voluntarily, are often misinformed about key characteristics of the products offered, and frequently do not offer the lowest-cost product option for a consumer's particular needs. Building on these findings, a second study had consumers "shop" for products using several variations on summary sheets for credit and savings, to determine what approaches to disclosure and product information could improve consumer understanding and decision-making. The project resulted in generalizable insights about consumer behavior, weaknesses in the sales process and product offerings to low-income consumers, and how improved disclosure and related measures could make the market work better for them. Based on the findings from both components of the study, CONDUSEF is evaluating options for policy reforms to ensure that providers match product offers with consumers' expressed needs and that product information is more clearly communicated. CGAP, the World Bank, and others are applying the findings in other lower-access markets. And, at least as importantly, the innovative research tools developed for the Mexico work show great potential as a relatively simple and low-cost way of observing and assessing consumer protection-related practices directly in the market.

SOCIAL PROTECTION AND FINANCIAL INCLUSION

An increasing number of policy makers and funders are starting to explore the complementarity of two agendas: social protection and financial inclusion. Innovative ideas are already being tested on what might well be a win–win proposition for customers and governments alike. For example, several governments—Colombia, Peru, and Kenya—are keen to explore how the approach taken by the **CGAP–Ford Foundation Graduation Program** can be mainstreamed into their social protection programs.

The Graduation Program is a global effort to understand how safety nets, livelihoods, and access to finance can be sequenced to create sustainable pathways for the poorest to "graduate" out of extreme poverty. Since 2006, the Graduation Program has partnered with local organizations and governments to adapt the approach in 10 pilot projects in eight countries. Most of the pilot projects have either been completed or are being finalized. The results are quite positive: after 18 to 36 months, 75–98 percent of participants met "graduation" criteria with regard to nutrition, assets, and social capital, as specified by each program.

Donors such as the Asian Development Bank, DFID, IFAD, UNHCR, and World Bank, as well as international NGOs, such as Concern, CARE, and others, are showing interest in the Graduation Program's approach of combining safety nets, livelihoods, and financial services as a new way of working with the extreme poor. It is important to document these efforts to better understand implementation success factors and challenges of these holistic approaches. Many questions still need answers: Should people who receive social protection transfers through an account automatically be considered financially included? Can payments received into the financial system generate greater value for people? While the two agendas of social protection and financial inclusion evidence are starting to come together, it is important to analyze the additional benefits of combining social protection and financial inclusion versus the benefits of each discipline working in isolation.

Responsible lending is another priority for CGAP's consumer protection learning agenda, and in FY2013 CGAP engaged policy makers from emerging market and developing countries, especially those with fast-growing economies, on this topic. To provide practical guidance to regulators facing debt stress in their markets, CGAP published **"Regulatory Options to Curb Debt Stress"** (March 2013). The Focus Note offers a policy framework for preventing and managing debt stress, which occurs when individual households or whole market segments become over-indebted. It argues that it is preferable to implement appropriate monitoring mechanisms at a relatively early stage in credit market development, to detect potential debt stress. It also makes the case that, as credit markets mature and debt stress evidence mounts, well-designed regulation can help prevent reckless lending practices, thereby mitigating risks to financial markets, consumers, and the regulator's credibility.

To encourage adaptation and application of this global guidance to specific national contexts, CGAP joined with the InterAmerican Development Bank's Multilateral Investment Fund (MIF) and the Association of Bank Supervisors of the Americas in March 2013 to host a discussion with regulators in Latin America on consumer lending in the region.

During this meeting, policy makers discussed the particular challenges for regulators and supervisors in markets where new providers, such as retail stores or telecommunications companies, are expanding rapidly. In particular, they raised three common challenges: (*i*) gaps in regulatory coverage of providers serving low-income consumers; (*ii*) limited financial reporting from financial institutions; and (*iii*) credit information systems that do not always keep pace with the expanding market. The observations from this workshop were based on experience in Latin American markets, but the challenges identified are common to many emerging markets in other regions across the globe. This meeting was an important step toward building regional consensus and sharing successful policy approaches from one market to another to ensure that increased access is managed responsibly, for consumers and for the health of financial systems.

CGAP incorporates findings and field experience into global-level guidance processes, to bring in the specific perspectives and realities of policy makers and regulators in base-of-the-pyramid markets. For example, our retail credit work is informing the approach of the Responsible Lending Working Group of the network of financial consumer protection supervisors. The G20 High-level Principles on Financial Consumer Protection offers another example: CGAP's extensive contributions to the process of going from principles to sharing common policy approaches for effective implementation of the most important principles (disclosure, recourse, and responsible provider practices) resulted in a more inclusion-friendly and pragmatic end product. CGAP also played an instrumental role in forging agreement on the scope and priorities of a new GPFI Sub-Group on Financial Consumer Protection and Financial Literacy launched under the Russian G20 Presidency. Across this entire agenda, CGAP works closely with AFI and its Consumer Empowerment and Market Conduct Working Group to explore good practices and cost-effective policy tools for countries with lower levels of financial market development and regulatory capacity, and to combine our experience and voices in advocating for inclusion-sensitive standards and guidance at the global level.

OPTIMIZING LINKAGES AMONG FINANCIAL INCLUSION, FINANCIAL STABILITY, FINANCIAL INTEGRITY AND FINANCIAL CONSUMER PROTECTION (I-SIP)

The financial inclusion advances made with the G20 and the SSBs raise new challenges for policy makers and financial regulators. Both SSBs and national policy makers traditionally pursue the core objectives of financial stability, financial integrity, and, more recently, financial consumer protection. With the addition of the financial inclusion objective, the challenge for financial regulators is to optimize the linkages among these four distinct policy objectives—financial inclusion (I), financial stability (S), financial integrity (I), and financial consumer protection (P)—collectively, I-SIP. There is good reason to believe that, at the level of outcomes, I-SIP objectives may be mutually reinforcing and interdependent. In practice, at the policy level, the linkages are less well understood, and policy makers face choices that are often unnecessarily framed as trade-offs.

In FY2013, CGAP initiated research exploring the I-SIP linkages to help policy makers make more evidence-based decisions. The first study, **"Financial Inclusion and the Linkages to Stability, Integrity and Protection: Insights from the South African Experience"** (October 2012), analyzes five specific interventions designed to promote financial inclusion in South Africa. It develops the concept that a proportionate approach to any financial inclusion measure (and specifically to its regulatory and supervisory design and implementation) should seek to optimize the I-SIP linkages: maximizing synergies and minimizing trade-offs and other negative outcomes. The South African study demonstrates that synergies are more likely to result when the approach taken focuses consciously on the potential to optimize linkages in the pursuit of all four I-SIP objectives, as well as the other broader policy objectives to which they contribute, such as economic development, increased welfare, and increased efficiency.

In their November 2012 Communique, the G20 Finance Ministers and Central Bank Governors validated this focus, calling on the SSBs to "engage with the GPFI to explore the linkages among financial inclusion, financial stability, financial integrity and financial consumer protection."

Elaborating on and refining the I-SIP approach offers an opportunity to engage collaboratively with the 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. 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.

IMPROVING SUPERVISORY AND ENFORCEMENT CAPACITY

Guidance and regulation are crucial factors in fostering an enabling and protective policy environment for financial inclusion. They will have little impact, however, if they are not enforced. Improving the effectiveness of supervision and enforcement of country-level rules governing financial inclusion is a critical challenge. CGAP's policy work in this area has a particular focus to improve supervisory and enforcement capacity in low-income countries, where the challenges are typically distinct.

A central effort in strengthening supervisory capacity is the continued global rollout in FY2013 of the Inclusive Supervision Training Program. Developed jointly by CGAP and the Toronto Centre, a global resource on financial supervision capacity development, the program objective is to enhance the capacity of on-the-ground supervisors of financial inclusion activities. The training is designed for supervisors as well as regulators charged with implementing financial inclusion-related guidance and regulation. In FY2013, CGAP has supported the Toronto Centre in organizing regional training sessions in South Asia and the Pacific (hosted by Bank Negara Malaysia and the South East Asian Central Banks Research and Training Centre), East African Community (hosted by National Bank of Rwanda), and Francophone West Africa (hosted by the Central Bank of West African States [BCEAO] at its training center). A second training module related to the supervision of financial consumer protection is being developed using as its basis CGAP's Technical Guide **"Implementing Consumer Protection in Emerging Market and Developing Economies."**

FY2013 also marked the successful completion of CGAP's multi-year partnership with SIDA and UNCDF supporting BCEAO to harmonize the microfinance laws of its eight member countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. Since its beginning in 2005, the project focused on improving the regulatory framework, strengthening the supervision of MFIs, and improving information on the sector. With new microfinance regulation having been adopted by all eight BCEAO countries in 2012, the new regulatory framework lays the foundation to change the financial inclusion landscape in BCEAO countries in the coming years. It opens the way for a range of institutional forms catering to the financial service needs of low-income households beyond the financial cooperatives prevalent in the region, such as limited companies and greenfield banks, and introduces risk-based supervision.

In addition to training and capacity building, CGAP released the second edition of the **"Guide to Regulation and Supervision of Microfinance"** in October 2012. The Guide addresses supervisory issues that are specifically relevant to formal financial services for the poor. This new edition takes into account new developments and rapid evolution in areas such as consumer protection for low-income customers, microinsurance when carried out by banks and MFIs, and issues in branchless banking, such as the regulation and supervision of bank and nonbank agents and e-money issuers.

IMPROVING THE EFFECTIVENESS AND QUALITY OF FUNDING

Today, there is greater awareness and understanding that microcredit to microentrepreneurs is only a small component of a much broader vision to bring financial services to the billions yet unserved. Donors and development finance institutions (DFIs) have contributed to this evolution from microfinance to the broader concept of financial inclusion. They increasingly seek to extend their role beyond institution building, to supporting and enabling adaptive financial markets that serve the needs of the poor. CGAP's work with donors and investors over the past five years has helped shepherd this transition. Over the past year, CGAP has used its convening platform to facilitate dialogue and conducted research to help funders identify where they can continue to add value and to build their capacity to deliver in the areas where their scarce public and philanthropic funding can be best leveraged.

IMPROVING TRANSPARENCY OF FUNDING

Funders need information on where funding is allocated to identify potential market gaps. They also need information on their own portfolios so that they can monitor and learn from their programming. In 2008, CGAP initiated work on funding transparency with a basic funder survey that aimed to standardize how funders report on their commitments. Over the years, the data collection process was streamlined, and CGAP now collects a full data set every other year, and relies on data from the top 20 funders in the years in between. This process works to ensure that the financial inclusion community has access to information on the level of global commitments while at the same time it reduces the burden on funders to report annually.

In FY2013, survey findings were published in the Brief **"Current Trends in Cross-Border Funding for Microfinance"** (December 2012). CGAP surveyed 59 funders in 2012, which represents 70 percent of the total market estimate of cross-border funding. Results show that cross-border funding for microfinance reached at least US$25 billion in 2011. In FY2013, CGAP also consulted widely with funders to adapt the survey to accommodate our evolving understanding of financial inclusion. CGAP's operational model, working alongside partners, in this case MIX, ensures that the data collected have a sound home that is in line with the vision of MIX's own growing role as a market intelligence and data hub for the financial inclusion community. Our data on cross-border funding flows have been extensively cited by academics, media, and other stakeholders. It remains the only reliable source on funding flows for microfinance.

Transparency of funding extends beyond what funders themselves are funding, as a variety of market actors are also working alongside funders at the field level. CGAP thus complements the funder survey research with in-depth studies on particular actors or issues in the funding landscape. Over the past five years we have done research and corresponding publications on apexes, small and medium enterprise funds, and most recently impact investing. This past year, CGAP conducted a comprehensive analysis of the impact investing landscape in emerging markets to better understand the sector and identify the role donors and investors can play in building this nascent industry. The Brief, **"Where Do Impact Investing and Microfinance Meet?"** (June 2013) presents the results of CGAP research on impact investing. One key finding is that microfinance investments make up close to three-fourths of impact investing assets under management (US$6.4 billion). The Brief also identifies three primary challenges facing the sector: inadequate tracking of social impact, unrealistic development impact expectations, and the lack of capacity-building infrastructures.

IMPROVING QUALITY OF FUNDING

Understanding the volume of funding is only half the picture. Funders also need to have the internal capacity to support projects that address our emerging understanding and market needs at the country level. To support funders' internal capacity to fund inclusive financial systems, CGAP has focused heavily over the past five years on several key areas that would enable funders to (*i*) understand where public funding or private philanthropy is needed (guidance), (*ii*) identify where their internal systems are weak (SmartAid Index), (*iii*) improve accountability systems and institutional learning (portfolio reviews), (*iv*) have the right staff capacity to design and implement inclusive finance projects, and (*v*) ensure that their funding is responsible.

UNDERSTANDING WHERE PUBLIC FUNDING OR PRIVATE PHILANTHROPY IS NEEDED

With our broader vision of financial inclusion, public funders and private philanthropies, collectively, have had to reflect on where they can add value. Over the past several years, CGAP convened numerous events to help spur dialogue and reflection and to identify clear guidance as to where funding is most needed in our current landscape. During FY2013, the donor community participated in a CGAP-sponsored event at the European Microfinance Week in Luxembourg. Some of the main themes around market development for financial inclusion and lessons from that event were later summarized in the CGAP blog series **"New Directions for Funders: Insights and Perspectives."** The insights generated from these convening events were consolidated and will be published in fall 2013. Parallel to this effort, CGAP also facilitated numerous discussions specifically on how donors can support capacity building using insights from a global survey on the demand and supply of capacity-building services.

This global reflection on the evolving role of funders, and their role in supporting capacity building in particular, was extended to discussions at the regional level. During FY2013, CGAP organized two funders meetings for the Francophone Africa and East and Southern Africa regions. Both meetings brought together leading funders in the regions to discuss lessons learned on their emerging roles and specific market development issues. A donor meeting was also held in Khartoum, Sudan, gathering funders working in the MENA region.

IMPROVING EFFECTIVENESS AND SMARTAID

Over the past 11 years, CGAP has worked with funders to strengthen their internal management systems to improve their funding for financial inclusion. CGAP uses the SmartAid Index to help funders identify their strengths and weaknesses in supporting financial inclusion, compare their performance with peers, and draw management's attention to priorities for change. Over the past five years, a total of 19 funders participated in SmartAid, representing more than 60 percent of total commitments to microfinance. Of these funders, four have participated in multiple rounds of SmartAid, each time demonstrating significant improvements in performance. In FY2013, five funders—AFD Group (AFD/PROPARCO), EIF, IFAD, MIF, and UNCDF—participated in the fourth round of SmartAid, with AFD/PROPARCO and EIF participating for the first time. AECID, AFD, AfDB, AsDB, CIDA, EC, EIB, FMO, GIZ, IFC, ILO, KfW, SDC, and Sida participated in prior rounds. SmartAid has proven to be useful as an evaluation instrument for funders, and it has resulted in significant internal changes for many participating agencies. Over 62 percent of SmartAid participants have taken action to implement suggested recommendations.

Given that the SmartAid Index has been so successful in attaining its objective, CGAP is developing an assessment tool that funders can use independently to analyze their internal systems. The SmartAid Assessment is a streamlined and user-friendly tool funders can use to assess themselves against the same set of indicators used in the SmartAid Index. This tool will be launched in FY2014.

IMPROVING ACCOUNTABILITY SYSTEMS AND INSTITUTIONAL LEARNING

In an effort to help funders learn from what they fund, CGAP focused its research and advisory work over the course of the year to help funders improve their performance and accountability in supporting financial inclusion. The Technical Guide **"Portfolio Reviews: Resource Guide for Funders"** (December 2012) offers guidance on designing and implementing portfolio reviews and draws from the recent experience of CGAP members. Over the past year, we deepened collaboration with some funders, including UNCDF and AfDB, by providing technical assistance and advisory services to evaluate the performance of their microfinance portfolios.

BUILDING STAFF CAPACITY

Knowing what to do and how to do it is essential; however, people are critical to selecting, designing, implementing, and monitoring financial inclusion projects. As such, effective funders need staff capacity. In light of the importance of building staff capacity and the increasingly complex and diverse subtopics of importance for financial inclusion, CGAP continues to adapt, update, and support the only course available to donor staff that directly addresses the skills they need as funders overseeing financial inclusion projects. During FY2013, the CGAP Funder Course took place in Dakar, Senegal, and Kathmandu, Nepal, with training covering the latest developments in microfinance, including client protection and branchless banking. Like all of our work, we aim to use a business model that ensures sustainability and efficiency. We continue to partner with ITC-ILO, which manages the course delivery process and recovers all of its costs from the course tuition. To incentivize and ensure that some funders are able to participate despite significant cuts in their staff training budgets, CGAP introduced a scholarship that allows a few select agencies to send key staff to the training.

ENSURING FUNDING IS RESPONSIBLE

Every funder has a role to play in ensuring that market outcomes are responsible. CGAP has worked with funders over the past five years through a dedicated workstream that focuses on both public and social investors to ensure responsible investing for financial inclusion. CGAP advocated greater accountability of investors in relation to the Principles for Investment in Inclusive Finance (PIIF). Together with the United Nations-backed Principles for Responsible Investment, CGAP produced a joint Report on Progress on PIIF implementation by direct investor signatories, likely those investment fund managers that weight responsible behavior more highly. The PIIF reporting framework has been revised and will become mandatory for all 50-plus investor signatories. Throughout the year, investors gathered in a working group of the Social Performance Task Force facilitated by CGAP have made progress toward improving their practices. The adoption of reasonable covenants and lender guidelines to avoid overindebtedness buttresses this point. In Cambodia, several investors teamed up to undertake an overindebtedness study and agreed to collaborate on promoting client protection assessment and certification. Following up on earlier work on the governance role of funders in financial institutions, CGAP took a closer look at equity deals and approaches to responsible exits. A study with the Council of Microfinance Equity Funds is ongoing.

REFLECTIONS ON THE PAST FIVE YEARS AND MOVING FORWARD

As CGAP winds down its work in the CGAP IV strategy period, there is a clear shift taking place to reflect the changing environment of our field and the corresponding evolution in the role of funders in this space. CGAP's work with donors and investors during the CGAP IV strategy period was heavily focused on improving internal systems as well as crowding-in private funding to a relative mature microcredit space.

Our work with funders on improving their effectiveness by focusing on internal systems has led to significant operational improvements within funding agencies and a remarkable transition in the nature of funding to microfinance, with increasingly more sophisticated financial instruments and programs that correspond to the maturity of partner institutions and markets in which donors operate. As the financial inclusion space evolves and funders open their funding opportunities to actors beyond MFIs, they face new challenges, such as identifying new areas where funding is needed. At the same time, donors need ever more timely information and knowledge on a more diverse set of technical areas that reflect the evolution of our industry. CGAP's work moving forward will shift to reflect this dynamic, moving away from a focus on internal systems to developing "real time" information and guidance on how funders can support emerging areas of work in financial inclusion.

Of special note during this period was our focus with social investors. Our work with this investor group began with improving basic transparency (the Microfinance Investment Vehicle [MIV] Survey) to developing standards around performance reporting (MIV Disclosure Guidelines), to tougher issues around what it means to be a responsible investor. As the industry's practices evolved and matured and private actors stepped up to take initiative, CGAP shifted its role from a convener to a supporter.

We now see a flourishing and active social investor community that leads its own coordination. Also, many actors are now serving the community with solid research and information to help the community continue to advance practices. Our work with social investors will reflect this change, but will continue where needed to help the broader financial inclusion space achieve the same successes in "crowding in" responsible investment we have achieved with microcredit.

REACHING OUR STAKEHOLDERS

With a year of experience and metrics under our belts since the September 2012 launch of the redesigned CGAP.org, we can say with certainty that CGAP's online presence is evolving with the times. We transitioned from a static, difficult-to-use site to a dynamic, mobile-responsive platform that serves as the hub for all of CGAP's work. CGAP.org is the place to go for all of CGAP's publications, research, blog posts, and social engagements.

In 2012, the site was recognized for its design and underlying infrastructure with two awards—a Communicator Award for excellence in marketing and communications and a Horizon Interactive Award for excellence in interactive media. Our work at presenting a modern and user-friendly website was also validated by positive responses in a site-wide user survey, where 97 percent of users gave the redesign a positive or neutral rating.

Our main goal with CGAP.org is to make our organization's work easily accessible to stakeholders all around the world. We reach a diverse audience that is spread over more than 150 countries and includes financial service providers, researchers and thought leaders, policy makers, donors, investors, members of the media, and students. CGAP.org has proven to be a powerful tool for reaching and influencing some of the strongest voices in financial inclusion. We have a dedicated following online, with half of our annual web traffic coming from return visitors.

Even though CGAP.org is our flagship product for conducting outreach, we always apply a multi-channel approach to our communications strategy. We combine our efforts on the website with engagement through social media, email outreach, print publications, press releases, and constant participation in high-level meetings and conferences. This ensures that we use the right channels when approaching targeted audiences.

FY2013 was an exciting year at CGAP, as we reached more than 550,000 visitors and served them with over a million page views.

FY2013 CGAP PUBLICATIONS

BRIEFS

- **Where Do Impact Investing and Microfinance Meet?** (June 2013)
- **Current Trends in Cross-Border Funding for Microfinance** (November 2012)
- **Supervising Nonbank E-Money Issuers** (July 2012)
- **Can Digital Footprints Lead to Greater Financial Inclusion?** (July 2012)
- **The Jipange KuSave Experiment in Kenya** (October 2012)
- **Microfinance Investment in Sub-Saharan Africa** (June 2012)
- **Can Postal Networks Advance Financial Inclusion in the Arab World?** (May 2012)
- **How Have Market Challenges Affected Microfinance Investment Funds?** (May 2012)
- **A Structured Approach to Understanding the Financial Service Needs of the Poor in Mexico** (May 2012)
- **Financial Inclusion and Stability** (May 2012)

CONSENSUS GUIDELINES

- **A Guide to Regulation and Supervision of Microfinance** (October 2012)

FOCUS NOTES

- **Advancing Financial Inclusion through Use of Market Archetypes** (no. 86)
- **Segmentation of Smallholder Households** (no. 85)
- **Trends in Sharia-Compliant Financial Inclusion** (no. 84)
- **Regulatory Options to Curb Debt Stress** (no. 83)
- **Emerging Perspectives on Youth Savings** (no. 82)
- **Financing Small Enterprises** (no. 81)
- **A New Look at Microfinance Apexes** (no. 80)
- **Voting the Double Bottom Line** (no. 79)

FORUMS

- **Microcredit Interest Rates and Their Determinants** (Forum 7)
- **Financial Access 2012** (Forum 6)

TECHNICAL GUIDES

- **Portfolio Reviews: Resource Guide for Funders** (December 2012)
- **SmartAid for Microfinance Index 2013** (July 2012)

OTHER

- **2012 Annual Report**

GOVERNANCE STRUCTURE

CGAP has an autonomous governance structure that consists of the Council of Governors (CG) of member donors and the Executive Committee (Excom). Housed within the World Bank Group, the Operational Team implements CGAP's activities.

The CG is CGAP's highest governing body and operates as a general assembly. It is responsible for setting CGAP's broad policies and strategic direction, providing inputs to the annual work plan and budget, adopting and implementing CGAP's consensus documents and guidelines, and determining the extension or disbandment of CGAP. The CG currently has more than 30 members; these include bilateral and multilateral development agencies, regional development banks, development finance institutions, and private foundations.

The Excom functions as CGAP's board and executive governing body. It has oversight of CGAP's activities and is responsible for providing strategic guidance to the Operational Team and approving the workplan and budget on behalf of the CG. The Excom is composed of representatives of the CG and leading microfinance industry practitioners.

The Operational Team, headed by CGAP's chief executive officer, is responsible for implementing CGAP's activities and programs. CGAP has offices in Washington, D.C., and Paris, France.

EXECUTIVE COMMITTEE MEMBERS

Vijay Mahajan, *Chair*
Chairman, BASIX

Robert Annibale
Global Director of Citi Microfinance,
Citigroup Microfinance Group

Edvardas Bumsteinas
Operations Officer, European Investment Bank

Renée Chao Béroff
Director General, PAMIGA

Margaret Grosh
Lead Economist, The World Bank

Michael Hamp
Senior Technical Adviser, IFAD

Karen Losse
Senior Adviser, Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ)

Clara Serra-Akerman
President, Fundacion WWB Colombia

Kazuto Tsuji
Visiting Senior Adviser,
Japan International Cooperation Agency (JICA)

Rodger Voorhies
Director, Bill & Melinda Gates Foundation

Tilman Ehrbeck, *ex-officio*
CEO, CGAP

MEMBER DONORS FY2013

African Development Bank (AfDB)
Representative: Mohamed Kalif
http://www.afdb.org

Agence Française de Développement (AFD)
Representatives: Marie-Laure Garnier and Philippe Serres
http://www.afd.fr

Agencia Española de Cooperación Internacional para el Desarrollo
(AECID)
Representative: Juancho Izuzquiza Rueda
http://www.aecid.es

Asian Development Bank (AsDB)
Representatives: Noritaka Akamatsu and Qifeng Zhang
http://www.adb.org

Australian Agency for International Development (AusAid)
Representatives: Fareeha Ibrahim, Alopi Latukefu, Luana Marriott, Christine Groeger, and Peter Wilson
http://www.ausaid.gov.au

Bill & Melinda Gates Foundation
Representatives: Rodger Voorhies and Daniel Radcliffe
http://www.gatesfoundation.org

Canadian International Development Agency (CIDA)
Representative: Connie Tulus
http://www.acdi-cida.gc.ca

Citi Foundation
Representatives: Pamela P. Flaherty, Graham MacMillan, Brandee McHale, and Irene Shiba
http://www.citi.com

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
Representatives: Karen Losse and Wolfgang Buecker
http://www.gtz.de

FMO, Dutch Development Bank
Representatives: Frederik J. Van Den Bosch and Roel Vriezen
http://www.fmo.nl

The Ford Foundation
Representative: Frank DeGiovanni
www.fordfoundation.com

German Federal Ministry for Economic Cooperation and Development (BMZ)
Representative: Susanne Dorasil
http://www.bmz.bund.de

European Bank for Reconstruction and Development (EBRD)
Representative: Henry Russell and Alfonso Vega Acosta
http://www.ebrd.com

European Commission (EC)
Representatives: Monica Peiro-Vallejo and Michele Chiappini
http://www.ec.europa.eu

European Investment Bank (EIB)
Representatives: Edvardas Bumsteinas and Perrine Pouget
http://www.eib.org

India Ministry of Finance
Representative: Umesh Kumar
http://www.mea.gov.in

Inter-American Development Bank (IDB)/ Multilateral Investment Fund (MIF)
Representatives: Tomas Miller, Nancy Lee, Sandra H. Darville, and Sergio Navajas
http://www.iadb.org

International Finance Corporation (IFC)
Representatives: Martin Holtmann and Peer Stein
http://www.ifc.org

International Fund for Agricultural Development (IFAD)
Representatives: Michael Hamp and Francesco Rispoli
http://www.ifad.org

International Labour Organization (ILO)
Representative: Craig Churchill
http://www.ilo.org

Japan International Cooperation Agency (JICA)
Representatives: Kazuto Tsuji, Makoto Iwase, and Shinichiro Yoshida
http://www.jica.go.jp

Kreditanstalt für Wiederaufbau (KfW)
Representative: Matthias Adler
http://www.kfw.de

Luxembourg Ministry of Finance
Representative: Nima Ahmadzadeh
http://www.fi.etat.lu

Luxembourg Ministry of Foreign Affairs
Representative: Daniel Feypel
http://www.mae.lu

The Mastercard Foundation
Representatives: Ann J. Miles, Reeta Roy, and Mark Wensley
http://www.themastercardfoundation.org

Michael and Susan Dell Foundation
Representative: Satyam Darmora
http://www.msdf.org

Ministry of Foreign Affairs, Italy
Representatives: Mauro Massoni and Nicola Pisani
http://www.esteri.it

Ministry for Foreign Affairs, Finland
Representative: Mika Vehnämäki
http://www.formin.fi

The Netherlands Ministry of Foreign Affairs
Representative: Richard Dons
http://www.minbuza.nl

The Netherlands Platform for Inclusive Finance (NPM)
Representatives: Ben Simmes and Josien Sluijs
http://www.microfinance.nl

Norwegian Agency for Development Cooperation (NORAD)
Representative: Anniken Esbensen
http://www.norad.no

Norwegian Ministry of Foreign Affairs
Representative: Ingrid Glad
http://www.mfa.no

Omidyar Network
Representatives: Arjuna Costa and Amy Klement
http://www.omidyar.com

Royal Danish Ministry of Foreign Affairs
Representative: Jorn Olesen
http://www.um.dk

Swedish International Development Cooperation Agency (Sida)
Representatives: Ola Nilsmo and Ola Sahlen
http://www.sida.se

Swiss Agency for Development and Cooperation (SDC)
Representative: Johann-Friedrich (Hans) Ramm
http://www.deza.admin.ch

UK Department for International Development (DFID)
Representatives: Anuradha Bajaj and Claire Innes
http://www.dfid.gov.uk

United Nations Capital Development Fund (UNCDF)/United Nations Development Program (UNDP)
Representatives: Henri Dommel and John Tucker
http://www.undp.org

United States Agency for International Development (USAID)
Representative: Jeffrey Levine
http://www.usaid.gov

World Bank
Representatives: Simon Bell, Janamitra Devan, Margaret Grosh, Douglas Pearce, and Gaiv Tata
http://www.worldbank.org

CGAP FINANCIAL STATEMENTS

CGAP's Financial Statements include a Statement of Revenues and Expenses, a Balance Sheet, and a Statement of Cash Flows. In addition, the following summarizes CGAP's key financial results for FY2013 and provides explanatory notes on CGAP's financial statements.

Key Financial Results for Fiscal Year 2013, Ending on 30 June 2013

- *Donor Contributions.* CGAP members continued to demonstrate their commitment to CGAP's mission and objectives through sustained funding in FY2013. Donor Contributions in FY2013 totaled $23.7 million, up $1.9 million from $21.8 million in FY2012. Of the total, $13.4 million was for core contributions and $10.3 million for designated contributions.

  FY2013 core contributions were down $1.7 million from FY2012 or at about the level of total core contributions in FY2011. The overall drop in core contributions from FY2012 was not unexpected, and was the net result of a combination of factors *inter alia* (*i*) a return to FY2011 contribution levels after one-off top-ups in FY2012 from Australia and France; (*ii*) the planned scale-down of the World Bank's contribution; and (*iii*) core contribution increases from FY2012 levels from Germany/BMZ, the Citi Foundation, and the Bill & Melinda Gates Foundation.

  FY2013 designated contributions were $3.6 million over the FY2012 total. Designated contributions were received from the MasterCard Foundation in support of work on Clients and Products and Technology and Business Model Innovation, Germany/GIZ for work on regional financial inclusion, and DFID and the Bill & Melinda Gates Foundation to support the Technology and Business Model Innovation Initiative.

- ***Commitments.*** CGAP committed $11.3 million to new Initiatives in FY2013. Of the total, $1.7 million was committed in support of the Clients and Products program, $8.9 million in support of the Technology and Business Model Innovation Initiative, and $0.7 million to regional financial inclusion work.

- ***Operating Expenses.*** Operating expenses in FY2013 totaled $9.0 million, or $98,000 less than in FY2012. The decrease was the result of minor delays in filling vacancies, and savings in office occupancy and in communications costs (reflecting the phased migration of the Microfinance Gateway to a new IT platform—expected to be completed in FY2014).

- ***Operating Reserves.*** Operating reserves totaled $11.4 million at end-FY2013, compared with $8.5 million at end-FY2012. The increase in operating reserves was the result of (*i*) the $1.9 million increase in donor contributions in the period, (*ii*) the decision to limit new allocations for Initiatives and Grants to those funded by designated contributions (anticipating the launch of CGAP V), and (*iii*) the decrease in operating expenses noted above.

- ***Bank Balances on Hand.*** Bank Balances on Hand totaled $4.9 million at end FY2013, compared with $3.2 million at end FY2012.

- ***Bank balances related to Undisbursed Grants/ Initiatives.*** Bank Balances for undisbursed grants/ initiatives totaled $17.1 million at end FY2013, up from $16.1 million at end FY2012. These balances comprise outstanding disbursements related to the Technology and Business Model Innovation Program, and for other previously approved multiyear programmatic initiatives.

- ***Donor Contributions Receivable.*** At end FY2013, donor contributions receivable totaled $6.6 million or about 28 percent of total pledged FY2013 donor contributions. The table below provides additional details.

Donors (status as of 06/30/12)	Estimated FY12 contribution (US$000)
Germany/BMZ	195
Japan	300
Luxembourg/Ministry of Foreign Affairs	330
Norway	822
MasterCard Foundation (Designated contribution)	4,930
TOTAL	**6,577**

Explanatory Notes

CGAP is housed in the World Bank and operates within the World Bank's legal, financial, and administrative environment; it follows the World Bank's fiscal year, which ends on 30 June. 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.

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 to carry out CGAP's 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 FY2012–FY2013 (Actual) and FY2014 (Preliminary Outlook).

The Statement of Revenues and Expenses shows donor contributions allocated for FY2012 and FY2013. The Statement of Cash Flows/Inflows, on the other hand, shows all donor contributions received during the fiscal year regardless of the fiscal year in which they were pledged.

Interest Income, Foreign Exchange Gains, and Adjustment

Interest income is the interest received during the fiscal year on cash balances held. Foreign exchange gains are the difference between the estimated U.S. dollar equivalent of donor contributions appearing in the previous year's financial statements and the actual US dollar value of the contribution when it is finally converted to U.S. dollars.

Grants and Initiatives

This expense category relates to CGAP's work carried out through grants to external recipients as well as staff-led initiatives in support of the CGAP work program. Expenses for consultants and travel related to delivery of staff-led Initiatives are reflected in this category as are expenses for CGAP staff funded by designated contributions. Approved funds unused at the closure of funds Grants and/or Initiatives are returned to the trust fund from which they were allocated for future allocation to a CGAP work program activity. Grants and Initiatives amounts are reported net of returns.

Operating Expenses

Operating Expenses comprise the following:

- *Staff Salaries and Benefits* of direct-hire CGAP staff, excluding CGAP staff funded by designated contributions.
- *Office and Occupancy Costs* including space, equipment, supplies, and other overhead expenses.
- *Monitoring and Evaluation* including consultant fees, travel, and meeting expenses, related to the external evaluation of CGAP initiatives.
- *CGAP Internships* are costs of Associate Microfinance Analysts and the summer fellows program.
- *CGAP Staff Travel/Representation and Service Providers* are expenses related to delivery of corporate (i.e., nonoperational) activities including *inter alia* participation in external events, CGAP-hosted meetings, and brown bag events.
- *Communications Activities* include publishing, printing, editing, translation, publication distribution, and Web content management.
- *Web Activities* include website development and maintenance, CGAP's intranet services, backend database support for project data, monitoring and evaluation, and market intelligence.
- *CG and Excom Meetings* include travel, facilities, accommodations, and other expenses in connection with CGAP's annual Council of Governors meeting and Executive Committee meetings.
- *Foreign Exchange Loss* is the difference between the estimated U.S. dollar equivalent of donor contributions appearing in the previous year's financial statements and the actual U.S. dollar value of the contribution when it was finally converted to U.S. dollars.
- *Administration 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. The current fee on most CGAP trust funds is 5 percent of contribution, collected on contribution deposit.

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.

Bank balances related to Undisbursed Grants/Initiatives represent approved allocations for activities under implementation, but not yet fully disbursed. These funds are therefore not available for allocation to other activities.

Donor Contributions Receivable

Donor Contributions Receivable represents contributions and pledges that had not been received by the end of the fiscal year.

Liabilities

Liabilities are the undisbursed portion of previously approved Grants and Initiatives.

Contributions Received in Advance

Contributions received in advance represent pledges for future fiscal years that were received in the current fiscal year.

CGAP FINANCIAL STATEMENTS ($000)

FISCAL YEARS ENDING 30 JUNE 2012 AND 30 JUNE 2013

	FY12 Actual July 2011–June 2012	FY13 Actual July 2012–June 2013
STATEMENT OF REVENUES AND EXPENSES		
REVENUES		
Contributions from Donors—Core	15,077	13,393
Contributions from Donors—Designated	6,709	10,281
Reallocation from prior year commitments	–	–
Transfer received from FPDVP	200	150
Interest Income	163	149
Total Revenues (A)	**22,149**	**23,973**
EXPENSES		
Initiatives Committed	4,113	3,420
Grants Committed	640	–
CGAP Technology Initiative	5,984	7,861
Staff Salaries and Benefits	5,232	5,178
Office and Occupancy Costs	1,072	914
Monitoring and Evaluation	243	0
Project Preparation and Rapid Response	–	2
CGAP Field Consultants	633	764
CGAP Internships	–	8
CGAP Staff Travel/Representation and Serv. Providers	549	526
Communications Activities	778	706
Web Activities	357	555
CG and Excom Meetings	210	278
Foreign Exchange Losses/Adjustment	200	–
Returned/unmaterialized donor contribution		
Administration Fee	669	845
Total Expenses (B)	**20,680**	**21,059**
Excess of Revenues over Expenses for the year (A)-(B)	**1,469**	**2,913**
Operating Reserves at beginning of the fiscal year	7,017	8,485
Operating Reserves at the end of the fiscal year	**8,485**	**11,399**
BALANCE SHEET		
ASSETS		
Bank Balances on Hand	3,188	4,922
Bank Balances relating to Undisbursed Grants/Initiatives	16,083	17,121
Donor Contributions Receivable	5,988	6,577
Total Assets	**25,259**	**28,620**
LIABILITIES		
Bank Balances Relating to Undisbursed Grants/Initiatives	16,083	17,121
Contributions Received in Advance	690	100
Total Liabilities	**16,773**	**17,221**
Operating Reserves/(Net Assets)	**8,485**	**11,399**
Total Liabilities and Net Assets	**25,259**	**28,620**

	FY12 Actual July 2011–June 2012	FY13 Actual July 2012–June 2013
STATEMENT OF CASH FLOWS		
INFLOWS		
Donor Contributions received	17,793	22,294
Reflows from previously committed grants	–	270
Transfer received from FPDVP	200	150
Interest Income	163	149
Foreign exchange gains		
Total Inflows	**18,155**	**22,863**
OUTFLOWS		
Cash spent against previous commitments	**2,614**	**3,478**
Grant Disbursements	484	640
Disbursements related to initiatives	2,130	2,838
Cash spent against current year commitments	**734**	**915**
Grant Disbursements	–	–
Disbursements related to initiatives	101	148
Project Preparation and Rapid Response	–	2
CGAP Field Consultants	633	764
CGAP Technology Initiative	**8,279**	**6,686**
Grant Disbursements	3,621	1,148
Disbursements related to initiatives	4,658	5,538
Operating expenses	**9,110**	**9,012**
Staff Salaries and Benefits	5,232	5,178
Office and Occupancy Costs	1,072	914
Monitoring and Evaluation	243	–
CGAP Internships	–	8
CGAP Staff Travel/Representation and Service Providers	549	526
Communications Activities	778	706
IT Activities	357	555
CG and ExCom meetings	210	278
Foreign exchange loss		
Returned/unmaterialized donor contribution		
Administration Fee	669	845
Net increase/(decrease) in undisbursed grants/initiatives	**(148)**	**1,038**
Total Outflows	**20,588**	**21,130**
NET INCREASE (DECREASE) IN CASH	**(2,433)**	**1,733**
Bank balances on hand at beginning of the fiscal year	5,621	3,188
Bank balances on hand at end of the fiscal year	**3,188**	**4,922**

CGAP FINANCIAL STATEMENTS ($000)

FISCAL YEARS ENDING 30 JUNE 2012 AND 30 JUNE 2013

DONOR CONTRIBUTIONS, FY2013 (Actual) to FY2014 (Preliminary Outlook) in U.S. dollars ($000)

	FY2011	FY2012	FY2013
World Bank	**2,920**	**2,520**	***1,600***
France / AFD / Treasury	**608**	**377**	*560*
African Development Bank	—	—	***120***
Asian Development Bank	—	—	—
Australia	**2,134**	**1,041**	***1,000***
Canada	**246**	**256**	—
Citi Foundation	**100**	**250**	**250**
Michael and Susan Dell Foundation	**200**	**100**	**100**
Denmark	**595**	**575**	***600***
European Bank for Reconstruction and Development	—	—	—
European Commission	**575**	**1,000**	***690***
European Investment Bank	**260**	**265**	***265***
Finland	**285**	**190**	—
Ford Foundation	**200**	—	**200**
Bill & Melinda Gates Foundation	**400**	**500**	*4,570*
Germany / BMZ	**317**	***504***	***504***
IADB/MIF	**100**	**100**	*100*
IFAD	**500**	**500**	*500*
IFC	**450**	**450**	**450**
ILO	—	—	—
Italy	**200**	—	—
Japan	**300**	*300*	*300*
Luxembourg	**564**	***532***	***532***
Mastercard Foundation	**500**	**500**	*1,000*
Netherlands	**400**	**400**	***1,000***
Norway	**822**	*822*	*411*
Omidyar Network	**300**	**300**	*300*
Spain	*205*	—	—
Sweden	**450**	**467**	*770*
Switzerland	**324**	**319**	***319***
UNCDF	**100**	**125**	**100**
United Kingdom	**822**	**800**	*3,565*
United States	**200**	**200**	*300*
Core	**15,077**	**13,393**	**20,107**
Details : Designated Contribution			
Gates Foundation	**1,500**	**1,750**	
Germany / GIZ		**717**	
Mastercard Foundation	**2,872**	***4,930***	***1,978***
United Kingdom	**2,337**	**2,884**	*2,015*
Total Designated Contribution	**6,709**	**10,281**	**3,993**
Total	**21,786**	**23,674**	**24,100**

Notes:
Contributions with donor pledge are italicized.
Contributions with signed administrative 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.

STAFF

Julia Abakaeva, *Microfinance Specialist*

Shweta S. Banerjee, *Analyst*

Lauren Braniff, *Microfinance Gateway Managing Editor*

Kai Bucher, *Communications Officer*

Greg Chen, *Senior Financial Sector Specialist*

Ann Courtmanche, *Senior Program Assistant*

Emmanuel Crown, *Web Developer*

Tilman Ehrbeck, *Chief Executive Officer*

Mayada El-Zoghbi, *Senior Microfinance Specialist*

Xavier Faz, *Senior Financial Sector Specialist*

Evelyne Fraigneau, *Executive Assistant to the Director*

Zoë Gardner, *Program Assistant*

Zeke Geh, *Associate Microfinance Analyst*

Natalie Greenberg, *Microfinance Gateway Business Manager*

Michel Hanouch, *Financial Sector Specialist*

Nina Holle, *Associate Microfinance Analyst*

Luz Hurlburt, *Resource Management Assistant*

Tanaya Kilara, *Financial Sector Analyst*

Antonique Koning, *Microfinance Specialist*

Kabir Kumar, *Microfinance Specialist*

Estelle Lahaye, *Microfinance Analyst*

Minh Huy Lai, *Microfinance Specialist*

Rudeewan Laohakittikul, *Budget Officer*

Alexia Latortue, *Deputy CEO*

Karel Leon, *Information Officer*

Timothy Lyman, *Lead Policy Officer*

Rafe Mazer, *Microfinance Analyst*

Djibril Maguette Mbengue, *Microfinance Specialist*

Claudia McKay, *Microfinance Specialist*

Kate McKee, *Senior Adviser*

Aude de Montesquiou, *Microfinance Specialist*

Marve M. Mulavu-Biggedi, *Operations Assistant*

Wameek Noor, *Financial Sector Analyst*

Anna Nunan, *Senior Publishing Officer*

Jonathan Okojie, *Budget Assistant*

Jake-Anthony Pauig, *Publications Assistant*

Nancy Pinto, *Senior Operations Officer*

Stephen Rasmussen, *Lead Specialist*

Michael Rizzo, *Digital Media Coordinator*

Sarah Rotman, *Financial Sector Specialist*

Ousa Sananikone, *Senior Private Sector Development Specialist*

Erin Scronce, *Communications Officer*

Renu Sehgal, *Operations Analyst*

Yanina Seltzer, *Financial Sector Analyst*

Michael Tarazi, *Senior Regulatory Specialist*

Camilo Tellez, *Communications Officer*

Jeanette Thomas, *Knowledge Products and Communications Manager*

Myra Valenzuela, *Associate Microfinance Analyst*

Tonia Wellons, *Senior Operations Officer*

CGAP REGIONAL REPRESENTATIVES

Nadine Chehade, *Regional Representative for Middle East North Africa Region*

Eric Duflos, *Regional Representative for East Asia and Pacific*

Corinne Riquet, *Regional Representative for Francophone Africa*

Olga Tomilova, *Regional Representative for Europe and Central Asia*

SNAP SHOTS OF FINANCIAL INCLUSION

The annual CGAP Photo Contest, now in its eighth year, aims to highlight stand-out professional and amateur photographers depicting financial inclusion around the world. Through strong photography, CGAP showcases the different ways in which poor households manage their financial lives and how financial inclusion can improve the lives of poor people.

The 2013 contest drew 3,890 entries from professional and amateur photographers in 91 countries. Several of the entries are featured in this report:

Fishing, Van Khanh Nguyen, p. Front, back and inside covers
New Day, New Nets, Ha Tran Bao, p. i
The Container Seller, Debdatta Chakraborty, p. iii
Men and Oranges, Luiz Grillo, p. iv
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