19TH CGAP ANNUAL MEETING
MAY 12–15, 2014
URUBAMBA, PERU
MINUTES AND SESSION SUMMARIES

INTRODUCTION

1. CGAP held the 19th Annual Meeting of its Council of Governors (CG) from May 12 to May 15, 2014, in Urubamba, Peru. Approximately 70 CGAP members, partners, and guests attended. The CGAP Annual Meeting is an opportunity to share expertise, insights, and innovations surrounding financial inclusion and their contribution toward broader development goals.

2. In terms of governance, the 2014 Annual Meeting focused on the operationalization of CGAP V, the current five-year strategy, the accompanying Results Framework, and the FY15 Work Plan and budget. The CG also concluded the review of the CGAP Charter, which was launched at the 2013 Annual Meeting.

3. Taking advantage of meeting in a country at the frontier of development in our field, the CG also heard about advances and challenges emanating from Peru's ongoing financial inclusion journey, with speeches by the Minister of Development and Social Inclusion, by the General Director of the Financial Markets and Provisional Funds Division from the Ministry of Economy and Finance, and by other senior officials and private sector players from Peru.

KEY DECISIONS

4. Several key decisions were taken by CGAP's governing bodies in the course of the Annual Meeting.

The Executive Committee (ExCom), in its meeting on May 12, agreed to recommend to the CG:

- approval of the revised Charter as prepared by the Operational Team, with minor edits
- approval of CGAP's FY15 Work Plan and Budget as prepared by the Operational Team
- election of the slate of three, new at-large members developed in close consultation with the CG

In addition, the ExCom approved Membership of the MetLife Foundation under the stipulations of the old Charter prior to the adoption of the new one.

The Council of Governors (CG):

- adopted the revised CGAP Charter with the editorial changes as recommended by the ExCom
- approved the FY15 Work Plan and Budget
- elected the three new at-large members of the ExCom and thanked the outgoing members for their service

PRE-ANNUAL MEETING EVENTS

MONDAY, MAY 12, 2014

5. Pre-Annual Meeting events, which took place on Monday, May 12, included (*i*) constituency meetings led by ExCom representatives; (*ii*) the annual in-person meeting of the Micro and Small Enterprise Finance (MSE) Working Group (see summary in Attachment 1); (*iii*) a session on CGAP's new Results Framework (see summary in Attachment 1); and (*iv*) an "Oxford-style" debate, "Is Cash the Enemy of Financial Inclusion?" In addition, the ExCom held its formal meeting to discuss and decide on recommendations to the CG (minutes to be distributed separately). An opening reception was held on Monday evening.

CG OPENING RECEPTION

6. *Peru's Minister of Development and Social Inclusion, Paola Bustamante,* was the featured speaker at the opening reception. In her remarks, Minister Bustamante said that Peru was strongly committed to financial inclusion and had made great progress in recent years. She outlined the many challenges in advancing financial inclusion, including aligning different social and economic programs. One goal was to incorporate recipients of conditional cash transfers (CCTs) into the formal financial sector; 1 million accounts had been opened so far. She stressed that the goal was not just about opening accounts but also about helping people become more financially capable. Under the Juntos CCT program, women receiving cash transfers were expected to take their young children to clinics and to ensure older children stayed in school. Research showed that savings made by these mothers went for school supplies and food. More than 400,000 women already have debit cards. Social strategies had been tailored to meet the needs of different populations. For example, seniors were using bank cards via a targeted program. For many, just having these cards facilitated water connections to their homes—previously water companies were reluctant to provide connections because of payment concerns. Another focus was working in a coordinated way to help people get access to the Internet. She expected e-money reforms would enable progress in the mobile banking sector and that electronic IDs or other ID verification methods would also make a difference. For example, pensioners getting their CCT payments via ID cards could do so using fingerprints as a means of verification rather than having to memorize a password.

7. Minister Bustamante thanked the group for choosing Peru for the meeting. CGAP CEO Tilman Ehrbeck thanked the Minister for showing how financial services could help improve the lives of the poor.

8. *Oscar Graham, General Director of the Financial Markets and Provisional Funds Division from the Ministry of Economy and Finance and President of the Interministerial Commission on Financial Inclusion,* noted that Peru had consolidated its position as one of most competitive economies in the region and was in a perfect position to advance financial inclusion policies. Huge challenges remained, however, including consolidating government reforms and making them sustainable.

9. Social inclusion is a priority for the government, and a core goal is to improve access to quality financial services. In February, a high-level commission on financial inclusion was created, which includes private and insurance banks, the Ministry of Finance, and the Central Bank. Financial education still poses a major challenge, and the concept of financial inclusion goes far beyond microfinance. It extends to insurance, pension funds, and access to other services. While there was a strong commitment to achieve greater financial inclusion, he urged private-sector involvement. Only through a strong public-private partnership would the goal of financial inclusion be achieved.

19TH CGAP ANNUAL MEETING
DAY 1: TUESDAY, MAY 13, 2014

OPENING

10. *Klaus Tilmes, Director, Strategy and Operations, Acting VP, Private and Financial Sector Development at the World Bank,* officially opened the meeting as Chair of the CG, hailing CGAP as a "great example of modern multilateralism." He applauded CGAP for building a solid knowledge base, staying on the frontier of market development, and elevating delivery of financial services to base-of-the-pyramid customers on the global development agenda. He said hard work was needed to operationalize the CGAP V strategy, adding that CGAP was well placed with the new Results Framework. He said CGAP leadership was evident in influencing the World Bank's own target of achieving universal access to transaction and savings accounts by 2020. The World Bank's admiration for, and close partnership with, CGAP will remain unchanged.

11. *Daniel Schydlowsky, Head of Peru's Superintendency of Banks, Insurance Companies and Private Pension Funds, Vice Chair, Steering Committee, Alliance for Financial Inclusion,* welcomed participants to Urubamba. He said that 30 years ago he could not have imagined hosting such a gathering. Schydlowsky provided background as well as the timeline for Peru's financial inclusion journey. He said that over time, awareness grew that financial exclusion was unfair and costly. Microcredit models that emerged to recreate the customer knowledge of village banking—assessing credit risk "using your nose"—made small loans possible. But those were inherently costly, leading to high interest rates that ran up against ceilings. In Peru's case, free market rate liberalization was a by-product of inflation and an important example of conscious moves by regulators to lighten the regulatory burden to make sustainable microfinance possible.

12. The challenge now was now getting the message across to the standard-setters in Basel, so they could hear that standards appropriate for highly developed countries and their systemically important banks do not work for countries such as Peru with well-developed microfinance but without systemically important banks. Standards that call for proportionate, dynamic regulation reflect the growing success of countries such as Peru in getting their situation understood at the global standard-setting level.

13. The next challenge Peru and its emerging market and developing country peers addressed was the cost of delivery of financial services to poor households. The availability of agents (over 25,000 now in Peru) as well as cell phones in nearly all poor households results in a dramatic lowering of marginal costs and brings access to formal finance to every corner store. Peru's objective to bring the mobile finance industry onto a single, interconnected platform may be an example for the world.

14. Peru has accomplished a tremendous amount on financial inclusion, yet enormous challenges remain. For example, now that Peru's microfinance institutions (MFIs) have shown how poor households can be served profitably and safely, rapid market consolidation is taking place. Preserving a diversity of specialized providers for poor households is an important policy objective.

GLOBAL PERSPECTIVES AND PRIORITIES

15. *Tilman Ehrbeck,* built on the key messages of the Peruvian Minister of Development and Social Inclusion at the opening reception, as well as those of Klaus Tilmes and Daniel Schydlowsky. In his presentation , summarized in Attachment 1, Tilman underscored the following four messages: (1) our vision

has become a major global development priority; (2) in-country progress is being made; (3) pro-poor market development at scale is poised to take off; and (4) CGAP's core priorities are well-aligned to accelerate opportunities.

WHAT'S ON YOUR MIND SESSION?

16. Mayada El-Zoghbi, CGAP Operational Team, facilitated a discussion among CG members on current financial inclusion trends and issues, using a consensor tool. In response to the question: "Since last year, my organization's excitement about financial inclusion has…" audience members voted as follows:

39% Increased substantially
27% Increased somewhat
27% Stayed the same
7% Declined somewhat

17. Mayada probed the audience on its responses; key observations included:

- *Renée Chao-Béroff, PAMIGA,* noted that her organization was more interested now in financial inclusion, particularly as the field had broadened to include supporting access to education, water, health, energy, and jobs.
- *Frederik Van Den Bosch, FMO*: FMO recently launched a sustainability bond for 500 million euros for green/inclusive financing. There is great interest on the supply side, underscoring excitement for financial inclusion.
- *Momina Aijazuddin, IFC*: Beyond 200 MFIs, the world of financial inclusion is converging, with telcos going into financial services. There is also much more interest from nontraditional players—Alibaba and Bandhan in India, for example.
- *Bianca Denfed, KfW,* indicated a perception of decline in interest, even though KfW's annual commitments rose last year to 2.5 billion euros, involving 293 projects in more than 63 countries.
- *Arjuna Costa, Omidyar Network,* indicated that Omidyar invested in early stage start-ups and that the sector was changing. Green shoots were starting to accelerate, and this was evoking a lot of enthusiasm.
- *Marius Kahl, BMZ* indicated that excitement "stayed the same," however, with new governments it is sometimes difficult to get their interest. CGAP messages were helpful in attracting high level attention.
- *Gabriella Braun, GIZ*: Excitement yes, but only within the group working on financial inclusion. More broadly, excitement is about agriculture, food security, and climate change. Linking financial inclusion to these other priorities is the key.

18. In response to the question, "In pursuing financial inclusion, what is the nature of the biggest challenges facing your organization?" audience members voted as follows:

44% HR constraints
23% Other
21% Funding constraints
8% Disbursement pressure
5% M&E system limitations

Key Comments included**:**

- *Jorn Olesen, Danish Foreign Ministry:* They were assessing new public/private approaches but it was hard in a decentralized organization to do this. More specialized people are needed.
- *Richard Dons, Ministry of Foreign Affairs of Netherlands*: There is a lot of rotation of people, and they need exposure to things at ground level. He looks forward to the (upcoming planned) field visits. Sitting in capitals, it is often hard to tell stories.
- *Renee*: The landscape is becoming more complex, and one skill was not enough. Organizations need to partner to get different skills and areas of expertise, such as water and energy.
- *John Tucker, UNCDF*: All programs have a funding cap.
- *Michael Hamp, IFAD*: The imperative is often to throw money at problems. Monitoring systems don't capture work in inclusive finance.
- *Arjuna* commented that many small players did not have the sophistication to enter finance. Another constraint was that there was a lack of risk capital to try new ideas.

19. In response to the question, "What is the most important role for funders today to advance financial inclusion?" the audience voted:

49% Support systemic/market development
27% Support scale-up of proven models
10% Create the evidence base to demonstrate systemic/market level changes
10% Other
5% Support champions (providers)

Key Comments included:

- *Jason Lamb, Bill & Melinda Gates Foundation (BMGF),* said that since its strategy shift two years ago, BMGF has put itself at the frontier of financial inclusion, with digital delivery as a major focus. He noted that based on Tilman's presentation, the industry is also moving that way.
- *Claire Innes, DFID,* indicated that the new institutional focus is on inclusive economic development and the story of what DFID has done with financial inclusion is seen as a prototype for other sectors. There are more innovative financing instruments, more early stage capital, but accountability and results frameworks are required. DFID has a strong in-country infrastructure. Funders need to focus on having platforms to implement.
- *Hans Ramm, SDC,* noted the mandate from Swiss parliament for private and financial sector development. The strong banking and insurance sectors in Switzerland are engaged in microfinance and reinsurance, particularly for agriculture. Excitement is low because of food security, climate change, and other priorities.
- *Craig Churchill, ILO,* said that ILO is involved in microinsurance and is spreading what has been learned, stimulating systemic market development.
- *Momina Aijazuddin, IFC,* noted that the IFC focus is on scale-up of models and new players. Alibaba is set to spread elsewhere, for example.
- *Edvardas Bumsteinas, EIB,* said that he voted for scaling models. In sub-Saharan Africa EIB had tested regional approaches where parameters were identified and then scaled up. This approach is rolling out now in other regions.
- *Noriji Sakakura, JICA,* said that JICA supported scaling up models as this was the role of JICA.

- *Ruth Goodwin-Groen, BTCA,* noted the focus on moving from cash to digital payments as a means of financial inclusion. However, she said many organizations are working in same area with the risk of treading on the toes of others and giving contradictory advice. It's important, therefore, to coordinate work and messages.
- *Mayada* concluded that there may be different views and approaches, but the bigger question is how to contribute to wider agenda.

PLENARY SESSION 1: Customers at the Center: Customer-Centricity as a Business Model

20. This session used the scenario of time-travel to 2019, culminating in an article published in a fictional magazine called *Da Economista*. *Gerhard Coetzee,* CGAP Operational Team, played the role of an investigative journalist in 2019 who looked at progress in implementing customer-centricity as a business model since the launch of CGAP's initiative on this topic in 2014.

21. The journalist (Gerhard) found that large numbers of poor clients were now using financial services continuously, contrary to a time when providers complained about poor uptake and use of services. Gerhard wanted to determine what influenced the change in thinking.

22. The session featured interviews conducted in 2019 with four key players: Daphne Motsepe, a well-known South African Banker; and Greg Chen, a CGAP Operational Team member, who was present at the launch of CGAP's "Customers at the Center" initiative; Jason Lamb, who represented the Bill & Melinda Gates Foundation at the time; and Ann Miles of The MasterCard Foundation (MCF), which started to support CGAP's work on client centered design in 2011.

23. The session aimed to bring to life five pillars of client-centricity as a business model: (*i*) the customer experience; (*ii*) provider leadership and culture; (*iii*) the people involved and the tools available to them; (*iv*) the operating model; and (*v*) value creation. The interviews elicited the following insights:

- *Daphne Motsepe*: By 2007, banks had little knowledge of their customers and had become product-driven, culminating in problems for providers, such as lapses, dormancy, and churn.
- *Gregory Chen*: Back in 2010, digital finance looked simple, but dormancy was huge because we didn't understand the customer's journey, which led to a focus on human-centered design. Greg thought he knew a lot, but learned much more about how to get customers to use the formal services aimed at them. (A video clip featuring customer-centric design, focused on Indian provider Janalakshmi, showed how different customer households had varying aspirations, triggering individual financial service needs.)
- *Ann Miles*: MCF's support focused initially on CGAP's work on client-centered design. Starting in 2013, MCF's "clients at the center" symposium brought together diverse providers to share challenges and experiences on customer-centricity in practice, and provided a great forum for establishing a community of practice. Customer empowerment calls for financial capability, not just literacy, and if it is a success, it should correlate with increased usage of formal financial products (because customers have confidence in themselves and trust in the formal products designed for them).
- *Jason Lamb*: The fifth pillar of customer centricity as a business model involves creating value for multiple stakeholders. There are two drivers of the business case: creating value for the customer and creating value for the business. However, first, we must understand the cost to the customer, i.e., the

cost the customer has to incur to interact with formal financial service providers. This is a function of several cost drivers, including direct financial and regulatory and compliance costs.

24. These insights informed the core of CGAP's customer-centricity guide. Other insights from the discussion were:

- Financial services are a means to an end: the enabling of poor customers' aspirations.
- Providers can't look at too narrow a customer segment.
- Many institutions begin the journey to customer-centricity from a highly product-centric orientation, and how to change this approach is important. Answering customer needs is not enough. Providers have to balance this with value creation as well as strategies around reducing cost to serve. If they consider all these aspects, sustainable customer-centricity is achievable.

PLENARY SESSION 2: Customers at the Center: The Nuts and Bolts of Customer-Centricity: From Inspiration to Product

Moderators: Yanina Seltzer, CGAP Operational Team
Hannah Regier, Frog Design Inc., a global product strategy and design firm

25. This session took participants through the process of human-centered design (HCD) and explained each part of the process through the lens of CGAP's project with Bank Tagungan Pensiunan Nasional (BTPN) in Indonesia. The session was led by Yanina Seltzer from CGAP and Hannah Regier, the designer who worked with Frog and a Dalberg team on the project. The session focused on sharing what HCD is and why CGAP started experimenting with it. Attendees joined two interactive exercises to demonstrate the processes.

26. Important points arising from the session included:

- HCD can complement more traditional approaches to design.
- What people answer in a questionnaire differs from results drawn from observing them in their daily life. HCD not only generates insights, but combines product development in the same process. This can be faster and cheaper to market.
- CGAP has demonstrated seven such projects, is refining the results into useable material, and is already seeing a much wider use of these methods by others.

27. *Jorn, Danida,* asked why HCD focuses on such small sample sizes that are not statistically representative. The moderators responded that qualitative interviews serve as a way to draw inspiration from customers and thus lead to new and interesting ideas for products and services. What makes this methodology different from traditional product development is that rapid prototyping allows for the quick testing of products and services with low fidelity prototypes, such as story boards or cardboard cell phone images, which makes it easy to test concepts quickly and cost-effectively.

19TH CGAP ANNUAL MEETING

DAY 2: WEDNESDAY, MAY 14, 2014

CGAP BUSINESS MEETING

CGAP STRATEGY OVERVIEW, INITIATIVE WORK PLAN, CGAP FINANCIALS

28. *Greg Chen* presented an overview of CGAP's strategy and initiatives. CGAP's initiative and communications leads then each described briefly the logic behind their initiative and related outcomes, with highlights from the FY15 Work Plan (presentations attached).

29. *Nancy Pinto, CGAP Operational Team,* then presented on CGAP's Financials, covering the CGAP V funding outlook and drilling down on the FY2014 projected outcome and the FY2015 budget plan (attached).

30. Key messages on CGAP's Financials included:

- Donor response to the CGAP V Strategy has been strong, with current estimates for the FY14–18 period at 84% of the CGAP V high-level resource target. Further contributions are being explored.
- Donor concentration projected for CGAP V is similar to the CGAP IV outcome—with five donors contributing about 60% of total resources. However, under CGAP V, the top three donors (DFID, MCF, and BMGF) are projected to contribute 50% of total CGAP V resources.
- The proposed allocation for FY15 ($28.8 million) represents a sharp increase from FY14, but reflects the need to frontload contracts, surveys, and other demonstration work to enable delivery of CGAP V outcomes by end-FY18.
- Even if no further resources are mobilized, and despite the FY15 allocation peak, sufficient resources would be available to fund work plans for FY16–18 at an average of $22 million per year.
- Staff-related costs as a share of total planned expenditure will remain in the 40–45% range over the CGAP V period to maximize flexibility across initiatives and to accommodate potential emerging new areas of work.
- Regarding FY15 resource distribution plans—approximately 70% of total resources are allocated to content delivery through the Initiatives work plans; Management and Administration accounts for approximately 11% of total resources.
- Some observations regarding funding and resource allocation and management:
    - It is important to recognize the structural funding difficulties of the Regional Development Banks and (soon) the WB. They do not have funding vehicles that work for CGAP purposes.
    - Specialized reporting requirements lead to incremental costs of doing business. So far, the Operational Team has accommodated, but will urge further standardization going forward.
    - Regional placements (under the regionalization experiment) are relatively costly. The Operational Team will track and share such costs and consider trade-offs.

31. In response to the presentations, CG members had three rounds of questions and comments:

First Round Questions and Comments

- *Richard Dons, Foreign Ministry of Netherlands,* expressed concern about the risk associated with the current concentration of donors along with the lack of World Bank commitment to funding. The Netherlands deliberately committed for five years and the World Bank, as host of CGAP and CG chair, must also commit funding.
- *Claire* agreed that support is needed from all donors. The WB's administration fee should be clarified in CGAP's Charter, and it must be made clear that all the donors contributed toward this fee. DFID and other donors face public scrutiny on how funds are used and this is a key element.
- *Edvardas* wanted to see more funders but it would be for the CG to approve new members. A change in the mix of funders will come through the change in membership
- *Hans* noted that SDC has a multi-year funding commitment to CGAP. CGAP is good value for money but there is a need to understand the limitations of multilateral organizations.

Responses:

- *Klaus Tilmes, World Bank,* indicated that he understood the sensitivities regarding WB's direct financial contribution to CGAP. Over the past two decades, CGAP has been able to count on the Development Grant Facility (DGF) for the WB contribution. DGF, as a "below-the-line" funding mechanism from the WB's net income, will be phased out and closed down in FY16. This decision, which had been approved by WB member governments several years ago as part of a multi-year initiative to establish a new global partnership framework, will affect a number of long-standing global programs (e.g., CGIAR, CGAP) as well as the annual awarding of grants for innovative programs. Klaus mentioned that the decision to phase out DGF funding should in no way be interpreted as a waning commitment from the WBG (World Bank Group, including the IFC and MIGA) to CGAP's vision, mission, or unique global consortium. On the contrary, the true indication of CGAP's impact can be seen in the fact that the WBG across IBRD, IDA, and IFC is now fully aligned to support the financial inclusion agenda in terms of global engagement as well as country programs. In a very direct way, CGAP's influence goes well beyond financial commitment. Klaus made the following suggestions:

    - Invite Gloria Grandolini, the incoming Global Practices Director, to the September ExCom.
    - Continue discussions with WBG senior management to seek alternative funding and support mechanisms that are consistent with the new budgetary arrangements for global practices. For instance, together with Tilman, Klaus sponsored an application to a new Global Engagement fund, but the outcome was unclear given that CGAP is a mature program. *[NB: Since the CG meeting, the DGF Council of the WB informed that it will fund CGAP for FY15 in the amount of $1.6 million for one last year before the DGF closes. This is in addition to the $1.6m contribution already made for FY14.]*
    - Explore options for diversifying CGAP's funding sources, including by accessing resources through WB-managed multidonor trust funds or by having the Operational Team serve as a contracting party for World Bank country programs.

- *Tilman* mentioned that Gloria Grandolini was invited to this CG meeting but could not make it because of prior commitments. In terms of risks, Tilman is less worried than in the past about donor concentration and the fact that there are more multi-year commitments from all members means it is less risky.

<u>Second Round Questions and Comments:</u>

- *Kazuto* asked for more information about expenditure, regionalization experiments, and new recruitments.
- *Gabriela* asked about the plan for further regionalization.

<u>Responses:</u>

- *Tilman* explained that regarding regionalization, the same baseline regional representation exists as before. CGAP has been experimenting cautiously with placing Operational Team staff in key markets to help advance the global learning agenda. This is particularly applicable to the Inclusive Provider Ecosystems initiative. In East Africa, CGAP has placed two staff, and in South Asia a presence is planned. On the issue of funding for initiatives, the initiatives were at different stages in terms of their maturity and this is reflected in funding levels. For example, the Graduation initiative is relatively mature and well-leveraged with many other parties, while other initiatives are really new and require upfront investment.
- *Ann Miles, MCF*: MCF is using the Graduation work and evidence to inform future work, which therefore leverages the seemingly minimal resource envelope for this initiative.
- *Kate McKee, CGAP Operational Team,* noted that the Graduation model had always been leveraged. Activities are implemented off-balance sheet. Now with crowded-in funding, CGAP's role is to make sure that resources/knowledge are available to implementers.
- *Tilman* noted that Digital Finance Plus and Measuring Market Development, for example, are newer initiatives that are closely linked to the broader Payments beyond Products and Funder Guidance initiatives. This explains why their funding levels are more modest.
- *Tilman* explained that incremental staffing reflected two new positions in the Smallholders' team and three new positions for the interactive capacity-building initiative. Tilman also indicated that the junior professional program will continue with three new staff to be recruited to replace those who have or will complete their terms soon. All hires are subject to approval in the current World Bank Employee Control framework. Inability to hire is a key work plan implementation risk.

<u>Third Round Questions and Comments:</u>

- *Ben Simmes, NPM Platform for Inclusive Finance,* noted that knowledge-sharing is CGAP's strength and so communications should be an initiative on its own.
- *Monica Peiro-Vallejo, European Commission,* wanted to understand the funding gaps in the coming years.
- *Craig Churchill, ILO,* asked how CGAP coordinates with AFI. Craig also mentioned that ILO has a lot of training activities that could be relevant for the new online capacity-building project.
- *Klaus* asked if the online learning platform would offer certificates to participants.

Responses:

- *Tilman* agreed that knowledge and communications are central to CGAP, but that they needed to be embedded in the content areas and should not be a standalone initiative.
- *Sue Pleming, CGAP Operational Team,* noted that Communications is a cross-cutting area and the role is both to support and enable the initiatives to disseminate and get their work known. In addition to supporting the initiatives, Communications has its own projects and will develop its own results framework.
- *Sue* responded that regarding the online capacity building initiative, they are currently scouting for partners and have already reached out to ILO. The Operational Team will continue to follow up with ILO and others. Regarding certification, the current plan does not envisage a formal certification process, but rather an online badging system and to create an online community through the training.
- *Tilman* said that CGAP will not become an e-learning provider; instead we are hoping to fill an identified gap and catalyze action by others with an aim to spin this work off to another self-sustainable platform.
- *Tim Lyman, CGAP Operational Team,* noted that policymaking is included in all CGAP initiatives; there are periodic bilateral calls between the CGAP Operational Team, AFI, as well as multilateral coordination among CGAP, AFI, BMGF, and GMSA. CGAP also contributes to AFI's work. The G20 is revising its financial inclusion action plan, including on SSBs. AFI is a contributor here, too.
- *Mayada* said that it was great to hear from ILO, and she will figure out a way to bring them in.
- *Xavier Faz, CGAP Operational Team,* noted that a lot of innovation is happening. Insurance is one of the models gaining traction. The CGAP agenda is closely connected with what Craig, ILO, mentioned, and CGAP welcomes collaboration with ILO.
- *Tilman* noted that based on the feedback, if additional funding were to be made available, it would likely go to smallholder innovation, consumer protection in the context of potential new risks emanating from technology-enabled business model innovations, and customer-centricity. However, Tilman said he is comfortable that with current funding CGAP can deliver against the new strategy and the results framework.

REPORT FROM THE EXCOM CHAIR

Membership

32. Kazuto Tsuji updated the CG on the approval by the ExCom of membership of the MetLife Foundation, in accordance with the outgoing Charter. MetLife Foundation will commit to CGAP financially, and with its knowledge and experience.

Charter Revisions

33. Kazuto described the process to date in preparing Charter revisions, including the extensive consultation process with the CG since last July. He noted that CG approval of the revised Charter is a precondition for timely creation of the new Multi-Donor Trust Fund (to which some members have FY14 funds to contribute). Nancy reminded the CG of the amendments to the Charter adopted by the CG at the 2013 Annual Meeting. Those amendments focused primarily on ExCom member terms—establishing a clear

rotation for ExCom member and aligning the terms of current members. At that time, the CG also approved an ExCom-led process for a comprehensive review of the Charter with the objective of presenting recommendations for changes for CG adoption no later than the 2014 Annual Meeting.

34. Charter revisions addressed the following key areas:

- Membership
  - Including a requirement for unrestricted funding as a condition of membership
  - Acceptance of in-kind contributions in lieu of unrestricted funding subject to CG approval
  - Clarification on "Consortium" membership
  - Addressing noncontributing members
- At-large ExCom member selection
- Clarification of roles—ExCom vs. CG
- Process for decision-making
- CEO selection and term
- Dissolution of the Investment Committee
- Treatment of Working Groups

35. Because the issue of noncontributing members had been a subject of discussion for an extended period, Kazuto asked the Operational Team to follow up on the current members that have not contributed financially (Asian Development Bank, EBRD, India, ILO, Italy, Spain) about the probability of their paying. He asked that the Operational Team report back to the ExCom at its September 2014 meeting on the status of each, and a recommendation for action. He indicated that the ExCom would review the status report and recommendations and consult with the CG about any further actions, if any. Kazuto reminded the CG that under the new Charter, if a CG member does not meet the funding requirement, it would be expected to resign by letter to the Operational Team (a voluntary resignation). While the Charter language on noncontributing members may look flexible, Kazuto stated that the ExCom intends to take concrete action on this matter by next year's CG meeting.

36. Kazuto further reported that the ExCom discussed the potential for new members (e.g., China, Islamic Development Bank, Malaysia, Turkey or other Islamic countries, others), and Kazuto expressed his view that it is a good time for CGAP to renew its contact and discussions with potential members, especially since it would likely take some time to gain approval and onboard them to the point they can contribute financially.

37. Questions on the revised Charter included:

- *Edvardas* asked if the relatively "soft approach" to noncontributing members was unsuccessful, whether we would consider a stronger formulation in the Charter next year. *Kazuto* replied that if this were the case, subject to approval of the CG, it would be possible (and advisable, in his view) to seek stronger Charter language. He also raised a concern that Consortium members receive consistent treatment in terms of their logos for official CGAP purposes.

- *Marius* asked whether the wording should be changed to substitute "may" for "will" in the clause: "Organizations may become CG members…" The Operational Team responded that since the CG retains final authority to approve new members, there was agreement to leave it as "may".
- In response to a query from *Ben Simmes*, the intent was clarified that the ExCom would provide input on the CEO review (i.e., "which will include ExCom input on the CEO review").

38. As there were no further comments or questions, Kazuto asked for and received unanimous adoption of the proposed charter amendments, as revised.

At-Large ExCom Membership

39. Kazuto reported on At-Large membership on the ExCom. He reminded the CG that Renée Chao-Béroff's and Bob Annibale's terms as At-Large ExCom members would expire at the end of June. Clara Serra-Ackerman had resigned for personal reasons earlier in the year. Daphne Motsepe was nominated and approved by the CG last year. Thus, three At-Large seats remain to be filled. Following a process to solicit nominations, the ExCom recommended a slate with diverse expertise and regional representation comprising: Carolina Trivelli (former Minister for Development and Social Inclusion, Peru), Muna Sukhtian (Managing Director, MicroFund for Women, Jordan), and Nick Hughes (CEO, M-Kopa, Kenya). The CG endorsed the slate.

40. Kazuto called for and got approval by the CG of the CGAP FY15 Workplan and Budget.

Reports from CGAP Working Groups

41. Brief status updates were provided for the CGAP Working Groups.

Rating Initiative

42. The aim of the rating initiative is to enhance accountability of MFIs regarding global financial and social performance standards and thus market transparency. *Hans Ramm* explained that this has resulted in global microfinance industry standards being lifted to responsible finance levels and partly beyond to social performance levels. This has effectively facilitated market self-regulation. Ratings help microfinance management to improve operations, including client protection, and to improve social performance management. Hans compared key external reporting tools.

MSE Working Group

43. This working group was established in Nairobi in 2010 with the aim of focusing on the MSE segment as a "missing middle." *Jorn Olesen* explained that the working group has had active participation in three conference calls this past year during which external experts (such as the IFC and OECD) presented on current topics. Nevertheless, the group has had challenges in setting clear targets. Jorn suggested the group might want to be organized more flexibly, addressing current issues as they arise but, given limited resources, not aim for labor-intensive deliverables, such as research and reports. EIB will assume the chair of the group going forward.

Microinsurance Network

44. *Craig Churchill* presented on the Microinsurance Network (formerly the CGAP Working Group on Microinsurance). It was established in 2002 and became an independent entity in 2013 with institutional and individual members. It is funded not only by a small number of bilateral donors (such as Luxembourg and Germany) but also by membership dues. Its flagship output is its annual conference, which convened more than 400 participants in Jakarta last year and included greater engagement with regulators. It hosted a roundtable in Paris to explore how investors can actively shape the microinsurance sector. It also introduced a new data-gathering initiative called "World Map," which collects supply-side information in LAC, Africa and the Middle East, and Asia on a rotating three-year basis. This is Craig's last year as a head of the network. His replacement will be named in November.

MEMBER ANNOUNCEMENTS

45. *Hiroki Arisato, Japanese Ministry of Finance,* expressed gratitude for CGAP's ongoing work and confirmed that it was important for the government of Japan to remain actively engaged in the financial inclusion dialogue. Japan announced an FY14 contribution of $300,000.

46. *Joanna Richardson, Foreign Affairs, Trade and Development Canada,* expressed her thanks for the kind welcome to her first CG meeting and underscored Canada's commitment to CGAP's financial inclusion agenda. She reconfirmed Canada's four-year contribution of $1.2 million.

PLENARY SESSION 3: Driving Financially Inclusive Markets

Moderator: Xavier Faz, CGAP
Speakers: Marcos Bader, Banco Bradesco, Brazil
Dieter Wittkowski, lead investment specialist in IDB's Multilateral Investment Fund
Narda Sotomayor, SBS, Peru

47. Through the perspectives of a private-sector actor, a regulator, and a donor, this session explored the elements needed to support private-sector actors to develop financially inclusive markets.

48. Highlights of the discussion included:

- There are three key elements to driving financially inclusive markets: (*i*) identified opportunity, (*ii*) a competitive environment, and (*iii*) sufficient information for providers to identify opportunities.
- The private sector in Brazil sees clear benefits in pursuing financial inclusion opportunities. These opportunities are driven by a number of factors, including (*i*) a large unbanked population (55 million), (*ii*) healthy economic growth, (*iii*) expansion of technology that reduces costs in service delivery, and (*iv*) a large payments market, 85% of which is still in cash. Competition is heating up in Brazil due to recent regulations allowing a wide range of actors to enter the digital finance sector.
- A similar regulation in Peru also heated up competition but not among new actors, such as telcos who have been relatively slow to respond. Instead, the threat of new actors has caused the Banks Association to create a low-cost payment system platform in which banks, MFIs, and other institutions can participate. The banks collaborated in the approach to reach economies of scale and head-off any potential threat from telcos.

- To advance financial inclusion, a regulator's primary role is through enabling regulation and related supervision. But another key role is to help close the information gap through data collection, such as demand surveys and poverty mapping.
- Donors can promote financially inclusive private sector initiatives through funding and technical assistance to promising pilots. Donors should work with big players (who often have the financial resources needed for success) and smaller players (who are often more nimble). Working with both can work well—such as in the case of the development of a psychometric credit tool developed by smaller player but adopted by big players.

Attachment 1

MSE WORKING GROUP MEETING

1. The MSE Working Group session featured four presentations by WG members Edvardas Bumsteinas (EIB), Frederik van den Bosch (FMO), Douglas Pearce (World Bank), and Jorn Olesen (DANIDA). Impact investment and the challenges of pursuing the dual objectives of financial and social returns were common themes throughout the presentations. Edvardas discussed EIB's recent experience in funding MSEs in the context of impact financing. Frederik shared the results of FMO's effectiveness studies and encouraged donors to use the Working Group as a platform to share lessons learned in this area. Jorn highlighted the challenge of donor-supported investment funds established in the last five years, citing the lack of transparency and strategic approach with regard to risk management, exit, and local ownership in many of these funds. Douglas discussed the World Bank's rethinking of its SME finance policy in the context of technology-based innovations in financial services and business models. The session closed with a round of the table with participants providing updates on MSE-related initiatives and concerns in their organizations. The meeting was chaired by Jorn Olesen, for whom this was the last meeting as MSE WG Chair. On behalf of CGAP, Gerhard Coetzee thanked Jorn for his leadership of the WG. (More detailed minutes will be circulated to WG members.)

PRE-MEETING DISCUSSION ON THE CGAP RESULTS FRAMEWORK

2. *Karina Nielsen, CGAP Operational Team,* presented the process for developing, and key highlights of, the CGAP V Results Framework. She noted that the recent reorientation toward results-based management serves many purposes: it enables focus on accountability; improves decision making; fosters a culture of knowledge sharing; and creates greater transparency. CGAP has operationalized its CGAP V strategy into 10 initiatives to be more granular with regard to the market changes it aims to influence and to develop a more measurable way to capture its results. Each of the initiatives aligns its theory of change to a specific audience to allow for accountability of outcomes.

3. Karina highlighted the feedback received from members on the draft Results Framework distributed in advance of the CG Annual Meeting. Feedback included:

- desire for further clarity on results statements, the architecture of indicators, and their links with measurement sources
- request for further identification of results across and above the initiatives and the monitoring and evaluation of those results
- more information on approaches to establishing baselines and targets
- more information on approaches to risk

4. CGAP has worked to improve the Results Framework following feedback from members including (*i*) updating the results statements where necessary following the rigorous application of each initiative's theory-of-change thinking and (*ii*) changing some indicators—including replacing the "perceptions of CGAP's contribution" with market-level change indicators. Next in the process will be to develop measurement, learning, and evaluation (MLE) plans—including indicator profiling and "monitoring beyond indicators." Karina

noted that based on an analysis of the needs of the initiatives, CGAP decided not to undertake a perception survey as part of the baseline analysis. Instead, CGAP will integrate this type of analysis into the CGAP V mid-term evaluation. Finally, Karina indicated that the Operational Team would work on a format for reporting on progress against targets and outcomes that would be shared first with the ExCom and then more widely with the CG.

5. The questions and discussions highlighted several key issues, including the need to provide information on efficiency and value for money and some input on expenditures such as communications budget versus initiatives budgets. Several members noted that the progress on CGAP's Results Framework can feed into the learning on measuring market development. Members indicated that they are struggling with similar issues in measuring their own work, and CGAP's work on this front can provide guidance as they do this themselves. Several donors indicated their interest in participating on the measuring market development working group (FMO, EC, UNCDF–BTCA, and Omidyar).

6. Next steps for CGAP's Results Framework will be to develop MLE plans for each initiative and a progress report format. New iterations will be sent to the ExCom for review at its September 2014 meeting.

SUMMARY OF MAY 14 PRESENTATION BY TILMAN EHRBECK ON GLOBAL PERSPECTIVES AND PRIORITIES

7. *Tilman Ehrbeck's* presentation built on the key messages of the Peruvian Minister of Development and Social Inclusion at the opening reception, as well as those of Klaus Tilmes and Daniel Schydlowsky. In his presentation , summarized in Attachment 1, Tilman underscored the following four messages: (1) our vision has become a major global development priority; (2) in-country progress is being made; (3) pro-poor market development at scale is poised to take off; and (4) CGAP's core priorities are well-aligned to accelerate opportunities.

8. *Our vision has become a major global development priority:* Despite the post-WWII aspirations of universal employment and social security embodied in the UN Declaration of Human Rights, the reality 60 years later is that half of the world remains financially excluded. We know that poor people act to improve their lives when given the opportunity, as evidenced, for example, by the "treatment" families involved in the BRAC randomized controlled evaluation of the rollout of its extreme poor graduation program in Bangladesh. This covered 25,000 of the poorest families in 1,200 communities, which as a result of the program invested in better health and education for their children and generally started emulating the employment choices of the rural middle class. The G20, the World Bank Group, the UN, and most important more than 50 developing countries and emerging markets have made financial inclusion an important priority

9. *In-country progress is being made:* Examples from FinScope data in Kenya, Rwanda, Tanzania, and Uganda show significant improvement in use of formal financial services over the past five to seven years. In all of these markets, the importance of nonbanking financial institutions is growing. In some, country-specific solutions are contributing (such as the SACCOs created by presidential order in every Rwandan municipality). And in some markets (such as Uganda), an increase in use of informal services accompanies the increased use of formal services. These developments are supported by a strong political tailwind, notably the G20's embrace of financial inclusion at the peak of the global financial crisis. More than 50 countries have made financial inclusion commitments, the World Bank has declared the aspiration of "universal access transaction services/accounts" by 2020, and the UN Secretary General's Special Advocate for Inclusive Finance for

Development is seeking to integrate financial access as an enabler into the UN's post-2015 Sustainable Development Goals.

10. *Pro-poor market development at scale is poised to take off:* The pieces to accelerate market development are coming together, including (*i*) better understanding of demand, (*ii*) proven viability of business models, (*iii*) technology-driven models dramatically extending reach and reducing cost, and (*iv*) country commitment leading to smart policy formulation. The example of a bank in Pakistan, where English-educated staff did not guess that poor women would expect to enter their PINs from right to left (as Urdu is written), showed how we need to learn to listen to clients. A video clip from Kenya illustrated how customers perceive insurance. MicroEnsure's insights-based approach shows that people want to learn to improve their lives, they enjoy small pleasures, and choices offered to them need to be relevant, so protecting their loved ones through life insurance makes good sense to them. The hidden champions in low-income banking, such as Equity Bank in Kenya and Acleda in Cambodia, have been rewarded by dominant market share and high return on equity by introducing modern retail banking. Technology is creating new such champions. This can be seen in the rapid rise of digital finance, as evidenced by M-PESA in Kenya, a competitive market in Tanzania (resulting in lower cost and prospect of interoperability), and bKash in Bangladesh (which has 80% market share and has already shown steep growth potential). These digital rails are critical to broader financial inclusion, as illustrated by a video clip on the value of bKash as quasi-savings for poor microentrepreneurs. M-Shwari in Kenya, also illustrated with a video clip, shows how ubiquitous digital money can be the backbone for other services, in this case interest-bearing microsavings and short-term microloans (though at a steep cost that many of us worry about). Continued proliferation of digital finance innovations makes many other businesses possible that require small payments, such as pay-as-you-go water in Delhi. India was also the example given of smart public-sector action, including the infrastructure investment in unique IDs that now allow 600 million poor Indians to satisfy Know Your Customer requirements electronically, and the changeover to volume-driving digital delivery of government benefits. A Reserve Bank of India Commission released a report in December with an ambitious yet credible plan to combine these elements with regulatory innovation to achieve basic access for all Indians by 2016.

11. *CGAP's core priorities are well aligned to accelerate opportunities:* The five themes of the CGAP V Strategy, and the 10 initiatives summarized in the work plan to be presented at Wednesday's business meeting, align with and aim to accelerate market development opportunities. Ultimately, we need to show how financial inclusion improves lives. The Peruvian Vargas family, introduced at last year's CG meeting (and participants in the Graduation Program featured in Thursday's field visits), illustrates this point. Financial services are a means to an end, not an end in themselves. They have the potential to spur new livelihoods, to improve the quality of and access to food and education for the Vargas children, and make energy and clean drinking water available. If we do this, we have succeeded.

Attachment 2

SUMMARIES OF BREAKOUT SESSION DISCUSSIONS

Day 1, Breakout Session 1: Behaviorally Informed Consumer Protection: Emerging Practice

Summary:

12. The purpose of this breakout session was to provide a glimpse of how research from behavioral insights can be used to inform consumer protection. The session used live data from CGAP work done in the field through a case study. Behavioral research (a combination of psychology and economics) gives a new slant to view problems and issues from a different a new perspective. There are common behavioral biases that interfere with how people think about and use financial services. Some of these include:

- Hyperbolic discounting—I'd rather have something now and pay for it later—don't pay as much attention to the future—near universal thing
- Framing—People always choose the 2nd cheapest wine, don't want to order cheapest as don't want to be cheap. Restaurants know this and they "frame" wine with highest margin as 2nd. People hate losing things—more effective than positive.
- Psychology of scarcity—Book called *Why Having So Little Means So Much*. When living in chronic scarcity (very poor or time constrained), this scarcity leads you to focus on what you have to get done. It gives you a very short time frame. It taxes your cognitive ability to think straight and makes it difficult to do long-term planning. In a study in India with sugar cane farmers, people were found to be less intelligent before the harvest than afterwards. Because of their worries and tax on their bandwidth before the harvest, they measure less well on an intelligence test.

13. Applying lessons from behavioral research to consumer protection is useful for many reasons:

- People find it difficult to make decisions on financial products as these products are complex to start with.
- We know some providers exploit biases
- Economic consequences are even more important for consumers that CGAP and its members care about

14. In June 2012, CGAP brought together lead policy makers and behavioral researchers to a consumer protection and behavioral research workshop. CGAP then conducted field work in Ghana and Malaysia to test some of this research when designing new consumer protection frameworks. The results will soon be published in a Focus Note. Next year, CGAP will partner on implementing consumer protection changes and see if they work better.

15. After the group reviewed and thought about a case study, the key take-aways were:

- Some evidence of what is happening with consumers in the nonbank, but registered, regulated sector can help provide insights about consumers' experiences, which can in turn help the Central Bank prioritize potential areas of focus.

- Generally, this type of research is low cost but has a profound impact on the perspective of policy makers.

Day 1, Breakout Session 2: Financial Innovation for Smallholder Families

Summary:

16. This session focused on the current evidence base and how it has influenced CGAP's planned work under this new initiative. *Michael Hamp, IFAD,* introduced the session by mentioning that the smallholder initiative is guided by an Advisory Committee of expert organizations, including CGAP members, other institutions such as the FAO, and private-sector actors.

17. *Michael Tarazi* highlighted key evidence that informed CGAP's approach and workplan. The evidence demonstrated that while a large percentage of the population in developing countries relies on agriculture for income, it is not always the sole or even the largest source of income. Consequently CGAP adopted a holistic approach to understand the wide array of financial services' needs of underserved smallholder families who are not only agricultural producers but also consumers with diverse sources of income. CGAP's demand-related work will test a number of hypotheses including:

- Emerging from poverty for smallholder families should be measured not only by increased income from agricultural production but also by diversification of income streams.
- Digital financial services are currently too expensive and insufficiently tailored to provide value to smallholder families.

18. CGAP's work plan in this area will establish a demand-side evidence base through financial diaries and quantitative surveys. On the supply side, CGAP will showcase current innovative approaches and pursue HCD projects on the potential of digital finance to reach smallholders.

19. The majority of the questions and comments during both sessions were on the current evidence base and the gaps. Further understanding *why* farmers act and think the way they do and the limited evidence that exist underscore CGAP's importance on advancing the work on smallholder farmers to understand how/if we can draw conclusions on segmentation variables such as gender, age, and demographics.

Day 1, Breakout Session 3: Innovations in Digital Financial Services

Summary:

20. The discussion in this session included the following points:

- Digital payments serve as a platform for other services. They have the ability to bring something to poor people. Financial transactions at a very low cost open up opportunity to bring in additional services. They also make different kinds of information available, and the data footprints that emerge allow institutions to infer something about these individuals. They also allow customers to quickly interact with financial service providers.
- Innovations in digital services have come through financial services, such as microfinance (cash intensive), microinsurance, unsecured lending, through nonfinancial services (Digital Finance Plus), micropayments, and microleasing. One example is microinsurance, where there are increasing models where the mobile network operator is driving the microinsurance business. Telcos are taking a more active role in driving insurance.

- Insurance through Leapfrog (Omidyar invested in them)—depended very much on the telcos in terms of being able to sell. The regulator allowed the private sector to test this model and later started regulating. In other areas, regulators weren't forthcoming. For insurance, regulation is still a question.
- Is microinsurance raising issues about consumer protection, consumer education? Individuals are getting things they don't understand. We are looking at business and regulation. It's important to outline opportunities and challenges and to drive toward closing the gaps. What's next? Other types of insurance? We need to sit down and understand real risks and figure out how we think about them.
- The conversation around the use of alternative data to assess credit risk was quite vibrant. Models such as CIGNIFI's were interesting yet there was a rich discussion around what the risk factors are. The Financial Access Task Force (FATF) requires people to have identities versus them being identifiable. Once the latter occurs, perhaps regulators could be more comfortable with this model. The other question in terms of risks was: What about data privacy? CIGNIFI: The scoring company gets anonymized data. Translates into an insight that somebody else can link to an individual.
- The conversation around M-Shwari in Kenya was also animated. One of the questions that arose was how can we ensure that the bank won't just take the algorithm and run with it on its own? Can people opt-out from getting a message from the bank saying they don't even want to get offered a loan? There were also many questions about the cost of loans. Like a cash advance, not microcredit.
- What's CGAP role? Knowledge? Perhaps also funding early stage companies?

Day 2, Breakout Session 1: <u>From Microfinance Leader to Financial Inclusion Leader: What Can Peru Teach the World?</u>

Summary:

21. The purpose of this session was to follow the story from microfinance to financial inclusion in Peru. *Tim Lyman of CGAP* referred to the journey from microcredit, to microfinance, to access to finance and then financial inclusion. He remarked how closely the Peruvian story followed these milestones, and he introduced the Peruvian experts: Martin Spahr, IFC, representing the supply side; Johanna Yancari, (Institute of Peruvian Studies, the demand side; and Narda Sotomayor, Senior Economist, Regulator of Banks, the regulatory and policy environment.

22. Peru started with a "credit first" approach, focused on microenterprise finance reflecting the reality that 98% of businesses were microenterprises at the time. The first regulatory regime thus also focused on microenterprise finance. It was institutionally agnostic, which was a clever approach as it accommodated a range of institutional types. In the same period, 1998, regulations concerning savings were also considered.

23. It was quite a diverse provider landscape, ranging from Cajas Municipales to MFIs, to savings funds supported by the German Sparkassen movement, and later a microfinance bank called Mibanco. Implementation was slow and cautious with heavy emphasis on capacity building and simplified offerings and approaches. The focus started in rural areas, and only in 2005 did the Cajas concept reach Lima—and institutional sustainability was a focus from day one. A majority of customers were microenterprises and small farmers.

24. Rules followed the development of the market closely, with credit bureaus lowering loan limits, meaning they included microloans within their scrutiny. By mid-2000 the first financial inclusion regulation draft was tabled for discussion. Lowering the cost to serve rural areas was a strong motivation, for example,

creating the space for agent-based banking. Today agents that work within existing regulations cover the whole country, serving 45% of the poor. Regulations accommodated deposit taking by agents, as well as the opening of simple accounts. Banks started quite late in the development of the market to move lower down the poverty ladder.

25. The Ministry of Social Development pushed the boundaries to empower poor clients to open accounts. Its financial education efforts resulted in poor clients opening accounts and moving from 3% of those that they interacted with that had accounts, to just over 90% of those reached by the program, within a two-year period. Strong cooperation among different government players pulled together in a multisectorial committee also played a major role to further financial inclusion, with more coordinated efforts than before.

26. One of the biggest challenges is that banks and other institutions are writing off the loans of 2–10% of clients annually and listing them at credit bureaus. This fueled the emergence of informal, unscrupulous lenders focusing on the people that were blacklisted. The market is mature and largely penetrated with more than 10% of institutions reporting losses with portfolios at risk slowly creeping up, requiring more emphasis on client protection policies going forward.

Day 2. Breakout Session 2: Growing through Agents: Experience of Financial Institutions in Peru

Moderators: Douglas Pearce, the World Bank; Gregory Chen, CGAP

Speakers: Renzo Rossi, Manager, Customer Service, Banco BCP; Alfredo León, General Manager, Caja Sullana

Summary:

27. Peru was an early adopter of agent banking regulations, soon after Brazil. Early on, regulations allowed both banks and MFIs to use agents. This was important, since this new channel was enabling banks to expand down-market, the regulator thought it should allow MFI's to also expand upmarket, and have a more effective competitive environment. The experience of using agents to serve customers was consistent across the bank and the MFI in the panel:

- Agent banking enables banks to expand rapidly into rural areas, and gain nationwide coverage with minimal investment. It also helps decongest expensive branch networks.
- Both institutions indicated that at a US$1,000–1,500 investment per access point, agents provide a channel that is six to eight times cheaper on average than branches to process cash transactions.
- Both institutions indicated how the agent channel allowed them to gain national presence in a short period of time, which remains a key competitive asset.

28. Other insights from the session:

- Agents like conducting financial transactions because it brings incremental revenue at minimal effort and cost; but moreover, people who come into the store to make a transaction often buy things. The experience mentioned indicates that, on average, sales can grow by 25% by becoming an agent
- More importantly, customers who would otherwise find it too difficult or costly to access formal financial services, find that agents provide a convenient access point that is close to home, where it is possible to transact outside business hours, with people they trust.
- A shared agent network in Peru, GloboKas network, is an important actor that is helping MFIs and banks equally have access to a shared network of access points, accelerating the pace at which formal financial services gain presence across the territory.

- Agent banking has grown exponentially. Greg, from CGAP, pointed out there were 120,000 agents in Pakistan, 90,000 agents in Bangladesh, and more than 300,000 agents in Brazil.
- Benefits observed from using agents include a significant reduction in operating costs, decongestion of branch networks, and better quality at branches.
- In the BCP agent model, all transactions are free for customers. They trust the agent, since the agent owns the store where they buy things and they have known the agent for years. Therefore, it is easy to also trust the agent for financial transactions. Agents like conducting financial transactions because it brings incremental revenue at minimal effort and cost; but moreover, because people who come into the store to make a transaction, also often also buy things. According to Renzo, the experience indicates that average sales can grow by 25% by being an agent.

Day 2. Session 3: Linking Financial Inclusion to Social Protection

Summary:

29. Peru has been a leader in promoting both social protection and financial inclusion. After an introduction by *Sue Pleming, CGAP*, *Carolina Trivelli, ex-Minister of Development and Social Inclusion*, presented Peru's experience with two programs: (1) Juntos, a financial inclusion CCT program, and (2) Haku Wiñay, a graduation scheme based on a joint intervention between CCT (Juntos) and a livelihood program.

30. While distinct, both strategies can complement one another to achieve social inclusion. Several lessons have emerged from the Peruvian experience:

- For the CCT achievements: Use of liquid resources (consumption, investment, production), pressures on gender systems and on children activities, change on the priorities of beneficiary households
- Adding new targets to CCT may not be the best choice: logistically challenging, budget management, political unviability
- Public sector is not flexible and faces important restrictions: CCT and graduation require different sets of social and public goods and services

31. Points of discussion included

- Hand-holding element of the program is complicated to manage, but in the case of Peru, beneficiaries are encouraged to create a social entity that is accountable to provide the hand-holding part. This also brings flexibility given that there is not a standardized approach.
- Relevancy for market based solutions? While these programs are not linked to private-sector actors, the objective is to eventually have access to markets.
- Results show that CCT is not sufficient. In Peru, while there are no national statistics, some regions show levels of recipients who successfully began new income-generating business. Success is regional/town specific: where economic opportunities already exists, the success/benefits for CCT recipients will be bigger.
- Importance of product design to keep women saving: after two years, some women no longer use the savings account; they use it only when they need it, and they use other ways to save. There is a need to work with providers to design appropriate products and understand the value proposition for women.

- Political issues can be challenge for CCT programs because they can be perceived as giving money for free to the poor. In Peru, for example, when the program was reviewed, it was decided that the only obligations should be that children must go to school and stay healthy. They lifted the longer savings requirement. This was tricky to handle politically. Also, because they learned that the success of the program would depend on the local economic context, it was decided to keep everyone in the program until children were no longer required to go to school, regardless of how better off recipients became. This created political issues as you are not necessarily giving cash to the poorest.