STRATEGIC DIRECTIONS FY 2019 – 2023

Innovate. Catalyze. Connect.

Empowering Poor People to Capture Opportunities and Build Resilience through Financial Services

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Executive Summary

The world is experiencing a period of dramatic change. Powerful global forces are affecting all aspects of society; they include rising inequality, increased migration flows, the emergence of the digital economy, the globalization of data and information, and pervasive changes in livelihoods and work. These forces are creating many new opportunities and risks for poor people, both men and women. They are also influencing the financial services industry.

In recognition of and in response to these global realities, the 2030 Agenda for Sustainable Development including the Sustainable Development Goals (SDGs) was adopted in 2015. While the SDGs do not identify financial inclusion as an objective, they acknowledge it as foundational to achievement of many of the SDGs. Financial inclusion indicators are referenced in several measurement indicators tracking SDG progress. Additionally, financial inclusion evidence demonstrates a strong link to achievement of several of the SDGs.

There are important trends affecting financial inclusion today. On the demand side, progress toward achieving financial access is encouraging, particularly in African countries that have scaled mobile money, as well as in the large Asian markets of India and China. However, many parts of the world lag far behind, and globally, usage indicators are slow to catch up. Some segments, including youth, and some of the rural poor, continue to fall short on all metrics of access and usage. Gender is also an important factor mitigating against financial access and usage, with women's financial inclusion lagging behind that of men in all regions of the world. On the supply side, technology is having a profound impact. Innovation and disaggregation of the financial services value chain is bringing a diverse range of actors into the financial services industry, including technology firms and social media platforms.

This CGAP VI strategy articulates how CGAP's work program is evolving in a period of rapid change. As a global think-tank and donor consortium, CGAP researches and experiments with an explicit view toward identifying solutions and extracting lessons that can be built to scale through its members and other partners, who ideally take the insights from the work and apply them in countries where they work. In selecting its work program, CGAP has identified a set of criteria for making trade-offs, prioritizing areas in which CGAP has high likelihood of having impact on the poor, while leveraging CGAP's comparative advantage, influence model, and complementarity with CGAP's donor members who can scale learning at the country level.

To continue to expand and deepen financial inclusion for the poor, CGAP has identified four interconnected priorities in its CGAP VI strategy: (i) creating customer value, (ii) emerging business models, (iii) enabling infrastructure, and (iv) next generation policy. Project activities grounded in these four priorities will allow CGAP and its partners to achieve the collective impact statement of "poor people are able to capture opportunities and build resilience."

In operationalizing this strategy, CGAP will need to make trade-offs between competing priorities. CGAP will continue to work with and through its members to guide its agenda and implement the strategy. As a donor consortium with more than 30 development partner members, CGAP's ability to deliver relies heavily on the financial and programmatic commitments of its members. With and through its members, CGAP is able to catalyze change, scale efforts, and make financial markets work better for low-income people. The proposed activities will therefore be shaped by the level of funding from and engagement with CGAP members. Finally, recognizing the risks inherent during a time of competing global priorities, CGAP is making efforts to mitigate these risks through the activities proposed and by exploring ways to expand the membership base.

1. Why Financial Inclusion Matters Today

Climate change. Inequality. Poverty. Refugees. Isolationism. Each day the headlines focus on one or more of these pressing global issues. But how do these affect poor men and women in developing countries -- and where and how does financial inclusion fit in? How should development actors adjust their priorities in light of the vast changes in the world and in the financial services industry?

Financial services are foundational to achieving a wide array of development goals, as evidenced by an expanding body of research. The United Nations Sustainable Development Goals (SDGs) represent the shared aspirations of countries and development actors and go well beyond poverty alleviation. They incorporate the need to promote prosperity and people's well-being, and to reduce inequality, while protecting the environment. While the SDGs do not identify financial inclusion as an independent objective, they acknowledge that it is central to achieving many of them. In fact, financial inclusion is explicitly mentioned in seven of the SDGs, and there are four financial inclusion indicators to track progress.

Numerous studies have demonstrated that access to bank accounts and payment services have a measurable impact on poverty by improving the ability of poor people to draw on wide social networks in times of trouble, significantly improving their resilience to shocks, and reducing the chances that they fall deeper into poverty. In Kenya, research has shown that expansion of mobile money has lifted nearly 200,000 out of poverty, especially households headed by women (Suri and Jack 2016). In addition, there is strong evidence that financial services improve resilience during times of crisis (see Box 1). Financial inclusion also has direct impact on health, education, gender equality and food security (see Box 2). Finally, it has an indirect role in achieving broader goals such as inequality, growth and peace.

As financial services respond to technological change, the need to continue to build and synthesize the evidence on the impact that new solutions have on poor people will remain a priority.

Box 1: Financial Services Improve Resilience

"Emerging evidence shows that financial services have a positive role to play in crises situations. Existing evidence suggests that access to financial services can strengthen the resilience of individuals and households in the face of negative shocks and significantly contribute to supporting livelihoods and stimulating economic activity after a crisis or disaster. Remittances help maintain consumption during difficult periods and contribute positively to local economic activity. Savings, whether formal or informal, can provide a form of self-insurance and thus help people to weather economic shocks without resorting to negative coping mechanisms such as asset depletion and child labor. While credit is often used as another coping mechanism for emergency expenses and to manage basic consumption needs, there is a risk that this can lead to a debt burden rather than improved well-being if it is not invested in productive ways. Insurance was found to have positive effects on consumption, asset protection, and the recovery of small businesses. Implementation of insurance schemes targeting the poor, however, has been challenging in crisis-prone environments, in part because of weak institutional and legal capacity, transactions costs, and limited demand due to low trust and low financial literacy."

Excerpt from CGAP Focus Note: The Role of Financial Services in Crises

Box 2. Financial Inclusion Supports Achievement of the SDGs

Financial inclusion is mentioned in seven of the Sustainable Development Goals including:

There is significant evidence that financial inclusion supports these and other SDGs. Some highlights from CGAP's publication "*Achieving the Sustainable Development Goals: The Role of Financial Inclusion*" includes*:*

HEALTH: Financial services help people manage medical expenses and invest in good health. In Nepal, households with savings accounts suffered smaller income reductions when hit with a health shock (Prina 2015). In Kenya, health savings increased by 66 percent when people were given a safe place to save (Dupas and Robinson 2013).

EDUCATION: Savings and other financial products help families plan for and manage education expenses. Remittance products that are earmarked for schooling have increased education expenditures in El Salvador and the Philippines (Ambler, Aycinena, and Yang 2015; De Arcangelis et al. 2015). In Nepal, households with savings accounts increased education spending by 20 percent (Prina 2015).

GENDER EQUALITY: Women represent 1.1 billion of the unbanked adults today. By giving women access to an account, their decision-making power in the household improves. Moreover, research shows that female-controlled finances are more likely to be spent on necessities such as food and water and for school fees and health care. In Kenya, women with savings accounts invested 45 percent more in their businesses (Dupas and Robinson 2013).

FOOD SECURITY: Financial services for farmers can lead to bigger investments in the planting season, leading to higher yields and improvements in food security. When Malawian farmers had their earnings directly deposited into a new bank account, they spent 13 percent more money on equipment and increased the value of their crop output by 21 percent (Brune et al, 2015).

While the measurement framework for the SDGs is still in progress of being finalized, as of this writing, there are currently four relevant indicators that capture dimensions of financial access and quality of usage including:

- **Indicator 8.10.1**: Number of commercial bank branches and automated teller machines (ATMs) per 100,000 adults.
- **Indicator 8.10.2**: Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider.
- **Indicator 9.3.2**: Proportion of small-scale industries with a loan or line of credit.
- **Indicator 10.C.1**: Remittance costs as a proportion of the amount remitted.

2. Changing Global Landscape

2.1 Financial Inclusion: Taking Stock

Progress has been made, but there is still much to do. According to the World Bank's Global Financial Inclusion Database (Findex), the number of adults owning an account is now at 69 percent, an 18-percentage point increase since 2011. The number of adults without an account is 1.7 billion, down from 2.5 billion in 2011. Technology and mobile money contributed to the improvements, particularly in Sub-Saharan Africa (SSA) where the share of adults owning mobile money accounts continues to increase, not only in East Africa, but also in many countries in West Africa. The share of adults with a mobile money account is now over 30 percent in Côte d'Ivoire and Senegal and over 40 percent in Gabon.

Some regions have continued to make important gains, even ahead of the global average. Account ownership in East Asia and the Pacific is now 70.6 percent, rising from 55.1 percent in 2011, albeit much of this driven by changes in China. Other East Asian countries continue to lag behind with Cambodia, Lao and Myanmar each below 30 percent.

India has perhaps seen the biggest progress, reaching 80 percent in 2017 from 35 percent in 2011; Bangladesh has also made important progress reaching 50 percent, up from 31 percent in the last two Findex rounds, although the widening gender gap in Bangladesh is of concern. Despite significant donor and government attention, Pakistan, continues to lag behind. Pakistan's account ownership is only 21 percent, up from 13 percent in 2014.

Several African countries have not experienced the digital revolution that is taking place in East and West Africa, with many countries that have experienced violence and fragility lagging behind. This includes South Sudan at 9 percent, the Central African Republic at 14 percent, Niger at 15 percent, Madagascar at 18 percent, and Sierra Leone at 20 percent. The developing countries in the Middle East and North Africa (MENA) generally suffer from low levels of inclusion, well below expectations of middle-income countries with Iraq at 23 percent, Morocco at 29 percent, and Egypt at 33 percent according to the 2017 Findex. The regional average in Latin America and the Caribbean is 54 percent, a limited increase from the 51 percent in 2014. While some countries experienced healthy gains such as Bolivia, Colombia, Dominican

Republic, Ecuador and Peru, the largest markets have stagnated, such as Mexico which is now at 37 percent (down from 39 percent in 2014) and Brazil at 70 percent (up from 68 percent in 2014).

And there remain serious gaps among certain segments such as youth. Furthermore, the global gender gap in account ownership is not narrowing, with the 9 percentage-point gap in developing countries remaining constant between 2011 and 2017 and evidence that the gender gap may be widening in some markets such as Bangladesh and Jordan.

Account usage continues to be a trailing indicator and is a concern both for customers and for the providers who need a solid business case to make serving the mass market worthwhile. According to Findex, 26 percent of bank accounts in developing countries have had no activity, whether deposit or withdrawal, in the past 12 months. GSMA's latest report highlights some key signs of change. While mobile money was dominated by narrow use cases such as person-to-person (P2P) transfers and airtime top-ups), more than 20 percent of all deployments now offer savings, pensions or investments, increasing the use-cases for customers (GSMA 2017). Industry wide, mobile money activity is still modest at 36 percent, but usage looks different in key markets such as Kenya, Tanzania and Uganda, where more than 66 percent of customers are active (GSMA 2017).

Innovation and disaggregation of the financial services value chain will continue. Opportunities for the private sector to enter the financial services space have expanded dramatically and in very heterogeneous ways around the globe. Connectivity and digitization lower transaction costs and create data trails that enable firms to innovate by developing new business models that serve poor customers. Innovations like distributed ledger technology, big data, artificial intelligence and cloud computing have the potential to enable other firms to create step changes in improving the cost dynamics for serving the poor.

New entrants are completely disrupting and disaggregating the value chain for delivery of financial services. Providers now include banks, microfinance institutions, cooperatives, mobile network operators (MNOs), payments services providers, merchant aggregators, retailers, financial technology companies (FinTechs), energy services providers, search engines and social networks. Bank branches and ATMs have been replaced by agents managed by MNOs in Africa, but specialized agent network management companies are expected to gradually take over this role from MNOs. And FinTechs are providing services that replace parts of traditional banking that are not handled efficiently or at costs that favor the poor, particularly in the areas of payments, international money transfers and retail lending. Distribution that enables the digitization and de-digitization of cash remains a key challenge in many markets. But China and India are seeking to address this by leveraging large state-owned banking sectors and allowing private sector players to springboard off this base. The increased diversity of providers offers a tremendous opportunity for new partnerships to be formed that support innovative solutions to serve the poor.

Governments continue to play an important role. Policymakers have an increasingly important role to play in ensuring access to financial services for all. Along with the private sector, policymakers can incentivize broader and interconnected market systems to achieve safe and more efficient product delivery. For example, East Africa has shifted from open experimentation to a more coordinated effort to build interoperable services for cross-border remittances and other services. Governments are increasingly channeling payments to citizens through digital infrastructure and, in some markets, citizens use the same channels to pay government taxes and fees. In India, the government is pushing on all the levers to develop a viable, large-scale digital ecosystem, from building unique biometric identification to pushing government payments through digital channels and integrating various financial services providers (FSP) into a unified payment system. In a number of markets, competition policy and consumer protection are increasingly a focus.

Global financial standard-setting bodies (SSBs) have significant influence on country-level policy environments, affecting both the business case for formal financial service providers and the value proposition for customers. Over the past decade, SSBs have demonstrated an understanding of the linkages between financial inclusion, stability, integrity, and consumer protection. The rapid development of digital financial services requires that they adapt and prepare for new and shifting risks.

2.2 Forces Shaping the Future

As the world rapidly changes, CGAP has identified several key forces important to the lives of poor people and to the future of financial services.

Rising inequality. Over the past 40 years, global poverty has decreased dramatically. Today fewer than 1 billion people live in poverty compared with nearly 2 billion people in 1975 (World Bank 2016), and this despite substantial population growth. Globally, poor people are predominantly rural, young, with little education, and mostly employed in the agricultural sector. They tend to live in larger households with more children. However, improvements in global poverty rates and income levels have not been equal across all regions. China's economic growth over the past 40 years has been the largest contributor to reducing global poverty. In 1990, nearly half of the world's poor lived in China; today, just 12 percent of the global poor are Chinese. More recent progress in Indonesia and India has also contributed to overall poverty reduction. Today, the concentration of poverty has shifted to SSA, where half of the world's poor now reside (World Bank 2016).

Poverty reduction has been accompanied by substantial increases in inequality. Data show that inequality continues to rise in many countries in terms of both income and assets. A recent global analysis of the changes in real incomes across different population segments between 1988 and 2008 shows that the middle segments and highest earners experienced significant income gains, while the poorest are only slightly better off than in the past (Milanovic 2012). Income gains in the middle segment reflect the emergence of a growing middle class in developing countries and particularly China, whereas wages have stagnated for the middle class in the US and Europe, leading to political pushback, particularly against globalization and free trade. Inequality is a growing challenge not only between countries, but within countries, and it is challenging the prevailing liberal economic consensus.

Increased migration flows. Economic opportunity, jobs, and the promise of a better life will continue to entice people to relocate, particularly to cities. Globally, more than half of the population lived in urban areas in 2014 compared with 30 percent in 1950. By 2050, two-thirds of all people on the planet are expected to live in cities, with the fastest growth in Africa and Asia. Forces such as climate change and conflict will accelerate people's drive to migrate. People living in small island states such as in the Pacific, South Asia and Sub-Saharan Africa are expected to be affected disproportionately. In 2014, close to 20 million people fled their homes because of natural disasters (IDMC 2015). In 2015, around 65 million people were forcibly displaced because of persecution, conflict, violence or human rights violations (Edwards 2015). According to the Internal Displacement Monitoring Centre (IDMC), mass displacements are frequent in the countries most vulnerable to natural disasters, which are often developing countries. Between 2008 and 2013, more than 80 percent of displacement took place in Asia. Given Africa's fast population growth and natural hazards, its people will be increasingly displaced. (IDMC and NRC 2014).

Migration does not stop at cities; it extends across borders. In 2015, the international migrant population reached 244 million with a majority coming from middle-income countries and moving to high-income ones (UN 2016). As violent conflicts fester and spread, more refugees are crossing borders. According to the UN High Commissioner for Refugees (UNHCR), although refugees represented about 8 percent of all international migrants in 2015, their total number has increased from 1.7 million worldwide in 1960 to close to 16 million in 2015.

Emergence of the digital economy. The Internet, mobile phones, and diverse tools that collect, store, analyze, and share information digitally are spreading quickly. The number of Internet users tripled in a decade to reach 3.2 billion by 2016 (World Bank 2016). On average, 8 in 10 individuals in the developing world own a mobile phone, including those at the base of the economic pyramid (World Bank 2016). In fact, more households in developing countries own a mobile phone than have access to electricity or improved sanitation. The spread of smartphones will link millions more low-income people to the Internet, dramatically improving their ability to access information and services in a user-friendly format.

Despite rapid progress in digital and Internet penetration, there is risk of a digital divide. Consumers who do not have a data footprint will increasingly be at risk of economic and social exclusion. In developing countries, a large portion of the population remains untouched by digital technologies: nearly 2 billion do not own a mobile phone, and nearly 60 percent of the world's population does not have Internet access (World Bank 2016). As access grows in developing countries, some groups are more likely than others to be left behind: low-income populations, women and rural communities are likely to lag in their access to the networks that are transforming the global economy.

Increasing globalization of data and information. The digital economy is generating massive volumes of data. According to the UN (2014), 90 percent of the data in the world has been created in the past two years, a pace that will accelerate as more people connect digitally. Mobile phone data, social media, SMS, emails, Internet search data, and financial transactions all provide diverse sources of data that reveal new insights that businesses and governments can use to better serve people who are digitally connected.

But the rise of data also creates new challenges. For customers, data present risks around privacy, anonymity, consent, security and potential discrimination. Data are often held by a small group of companies such as MNOs, Internet service providers and social media companies, which may be reluctant to share data to preserve their competitive advantage, encouraging monopolies. This also challenges nation states. People and organizations are interacting beyond national borders, sharing ideas and finding solutions to challenges with or without state involvement. These interactions are often free of any kind of control (Coursera 2017), resulting in empowerment of non-state actors and making power more distributed and diffuse from a national perspective, but concentrated in the hands of a few transnational corporations. One key emerging concern is the dominance of digital platforms, which are increasingly redefining political and societal realities (Ghez 2016).

Widespread changes in livelihoods and work. According to the World Bank, demographic trends require the creation of 600 million new jobs globally in the next 15 years to maintain stable rates of employment. The problem is particularly acute in South Asia, Sub-Saharan Africa and MENA, regions where large numbers of young people have few formal employment opportunities. While some countries will face challenges in maintaining current employment levels in the face of growing automation, others will have to run even faster to keep up.

Migration, digital technologies and globalization of data have the potential to create new employment opportunities. As more people move to cities, they will be looking for nonagricultural work in domestic service and knowledge industries, or in the outsourced industries from other countries. Developing countries may not benefit from globalization if their skill development and technology fail to keep pace with technological advances. In 2017, the McKinsey Global Institute estimated that 51 percent of employees in China are vulnerable to displacement due to automation; similar percentages were estimated for other countries, including Ethiopia, Thailand, Egypt, Peru, and Morocco. Sectors that have the largest variation in potential for automation employ many poor people today. These sectors include agriculture, manufacturing and trade (Manyika et al. 2017). Digital technologies are also disrupting work patterns. There are more irregular contracts and short-term work, blurring the lines even further between informal and formal and limiting job security and protection (UNDP 2015). At the same time, digital technologies may offer alternatives for organizing the informal sector, creating some of the same advantages that normally come with formal labor, such as choice of working times and tracking of hours worked and wages earned (i.e., the Uber effect).

2.3 Implications for Financial Inclusion

The forces outlined above have important implications for financial inclusion in developing countries. Some of these can be anticipated and mitigated, while others will catch us completely by surprise. But for the markets CGAP cares about, it seems quite clear that adaptation will be required on all sides.

The poor will have to adapt to an increasingly complex world. Climate change and improved access to information will increasingly push people towards cities. This will change their lives in ways both positive and negative. They will need to adapt to a connected global economy, leapfrogging the traditional route of industrial development straight into the information age. This will create opportunities for some, but challenges for others. New skills will be central to this transition. The financial inclusion community will need to look for ways to support this massive change, equipping poor people to thrive in urban environments and supporting the livelihoods of those who remain in rural areas who are often the elderly or women who stay behind in the village. The development of appropriate financial services use cases will be crucial, as will building out a large-scale and low-cost infrastructure that supports delivery of these services. Domestic and international remittances, savings, livelihood-enhancing loans, and products linked to education and skills development will be critical to adapting to new urban environments. Those remaining in rural areas will need access to similar use cases, but will also require access to essential services like clean water, energy, health, and education, as well as agricultural supply and insurance services. In order to develop appropriate products and services, much more work needs to be done in understanding the needs of excluded segments.

Providers will need to refine their business models in ways that achieve both scale and depth of penetration. This will be particularly difficult in smaller, poorer countries, and especially in Africa. The last ten years have shown the promise but also the limitations of the M-PESA business model and many providers are struggling to make the economics work when primary use cases are limited to P2P transfers and airtime top-ups. Demand also is strong for other products such as international money transfers and digital credit. But running agent networks is expensive, and as long as people use cash, they must get cash into and out of the digital ecosystem. To drive efficiency into the system and bring down costs, providers will need to find ways to cooperate with their competitors, building shared infrastructure and interoperable solutions. This will have the effect of broadening the ecosystem and bringing it to sufficient scale to reach the mass market and the poor. To deepen the ecosystem and build the new use cases, businesses must be viable. Large infrastructure providers will need to open up their rails to third parties allowing independent developers to build the products and services that customers want at a faster pace and at lower cost. Providers will also need to think more broadly, finding creative ways to increase customer usage. Providers will need to make better use of the data at their disposal – both in the development of their own services, and in making data available to others who may be able to provide the service more innovatively or efficiently than they can. Partnerships will be crucial to building an integrated digital ecosystem. And an integrated digital ecosystem will be critical to building the scale that is required to bring costs down to a level where it is possible to sustainably serve the poor.

Governments will need to adapt to a rapid pace of change in the development of digital ecosystems and financial services. National governments and global bodies will need to build a deeper understanding of the multiplicity of new players providing services and understand the ways in which they can both promote the use of financial services and protect the stability of the financial system along with the rights of customers. This will require much better data, skills and practices across a range of governmental and intergovernmental agencies – from financial sector regulators and supervisors, to competition authorities, consumer financial protection authorities, and government agencies looking for more efficient ways to make payments to their citizens (or accept payments from their citizens), to regional and global bodies adjusting to the emerging new world. Google, Facebook, WeChat and other BigTech players will present challenges that go beyond their borders, and that will require transnational collaboration among regulators and policymakers. The pace of innovation in financial services is accelerating and many governments in developing countries are ill-prepared to oversee and utilize novel forms of financial services delivery. Technology offers solutions for addressing some of these challenges, but there will be a steep learning curve, and dialogue and new approaches to collaboration between the public and private sectors will be increasingly important.

Donors will need to continue to adapt, but even more rapidly. Many donors have begun to reorganize their work in relation to the 2030 Agenda for Sustainable Development. The Addis Ababa Action Agenda (AAAA) defines the financing framework for the SDGs and donors are seeking ways to better leverage the private sector. Donors and other development actors are experiencing many of the same challenges as governments in understanding the new players and their shifting roles in this increasingly complex landscape. Pressures on donor operational budgets have meant trying to do more with less. How can they leverage the private sector without increasing the trends that foster monopolistic players? How can they adapt their roles in this increasingly digital and complex environment with less technical staff and budgets shifting to non-financial services sectors such as health or education? Donors and development actors will need to identify ways of working that allow them to access deep technical expertise, while influencing colleagues in other sectors. Using a market systems approach and partnering with market facilitators is one important way in which donors can improve their ability to adapt to the changing landscape. As the pace of change continues to accelerate, donors will increasingly need more ways to tap into emerging practices and early evidence on what works and where their resources are most effective.

3. CGAP's Role and Comparative Advantage

3.1 CGAP's Role

CGAP is well positioned to address many of the emerging challenges for poor people using financial services. CGAP plays a unique role as a donor-coordination mechanism for funders working to improve the lives of poor people through the power of financial inclusion, providing a valuable platform for information, dialogue and reflection to advance progress towards a collective vision. Using action-oriented research, CGAP tests, learns and disseminates knowledge intended to help build inclusive and responsible financial systems that move people out of poverty, protect their assets and advance broader global development goals. CGAP leverages its relationships with businesses, governments and the non-profit sector to share insights, mitigate risks and protect customers, and help other actors bring solutions to scale who apply those insights in the various countries where they work. This working model ensures that CGAP retains a laser focus on innovative approaches to responsible and inclusive financial development, while others focus on implementing and scaling up solutions. CGAP serves as a global advocate for the financial inclusion community by collaborating with strategic institutions that influence policy and market development and providing evidence-based research and practical lessons that guide their work.

Box 3: Prioritization Criteria for Topic Selection

1. Impact on poor people
2. CGAP's comparative advantage
3. Clear influence strategy
4. Plausibility to achieve outcomes
5. Clear partners to test and learn and partners to scale

CGAP prioritizes learning on issues based on several criteria (See Box 3). The most important criterion is the likelihood of disproportionate benefits for poor people. This requires CGAP to have a broad understanding of financial sector development and the digital trends that affect it, followed by deeper analytical work that enables CGAP to identify which topics are likely to have greater impact on the lives of the poor. At the heart of CGAP's work is integrating customer needs with new technologies and business models, while understanding the importance of an enabling and protective policy environment to create opportunities for poor people to build sustainable livelihoods. Section 7 of strategy document goes into greater depth on the process CGAP undergoes as it makes trade-offs in selecting learning topics.

3.2 CGAP's Comparative Advantage

Over 22 years, CGAP has built a strong reputation in the financial inclusion community, based on:

- **Deep Expertise:** CGAP's global team of financial, policy, legal and development experts from over 25 countries has extensive technical and field experience in the private and public sectors.
- **Collective Power**: As a global partnership supported by more than 30 leading development organizations, CGAP acts as a donor coordination mechanism to develop strategy and exchange knowledge. CGAP's work is strengthened by the rich variety of perspectives its members bring.
- **Trusted Voice:** CGAP is independent and impartial. The pioneering research, backed by practical field work, provides the credibility to advance innovative strategies and convene governmental and private sector leaders to explore collective solutions.
- **Global/Regional:** CGAP has a global remit but also engages in country-level work. The insights from one inform the other, enriching and deepening CGAP's knowledge and advice.
- **Public/Private:** CGAP convenes and partners with actors in the public and private sectors, giving it a comprehensive perspective across the financial system.

See Annex A for an analysis of CGAP's role and comparative advantage vis-a-vis other stakeholders in the financial inclusion ecosystem. By design, stakeholders are not identified by name, rather the analysis positions CGAP relative to actors serving various roles in the financial inclusion ecosystem.

Box 4. Excerpts from CGAP V Mid-Term Evaluation

"CGAP has a strong influence in the sector with **an ability to facilitate effectively** and to produce Outputs that are **highly relevant to those interested in financial inclusion** issues."

"To the extent to which CGAP is achieving …[its] objectives, CGAP's **high-quality Outputs, credibility, high reputation, and convening power** have all been important factors."

"CGAP is a flexible organization that **adapts to the changes in the international context** in which it is working."

3.3 Global and Regional Approach

One of CGAP's core strengths is its ability to move easily between global and regional perspectives. By mandate and design, CGAP operates at the global level, which means it needs to maintain a global perspective by accessing information and knowledge across all regions of the world. At the same time, the kind of practical learning that CGAP conducts through research and experiments must take place using direct engagement at the country level with partners.

CGAP has historically experimented with different models that allow it to capture learning and share knowledge globally. In CGAP V, CGAP experimented with a country-specific approach in nine countries, all in sub-Saharan Africa and South Asia. Given how heterogeneously financial innovation is developing around the world, CGAP believes it is important to re-position itself as a global organization, with a re-allocation of resources that enables learning and sharing across all developing regions of the world. Under CGAP VI, CGAP will explore new mechanisms to balance regional reach while ensuring that a global perspective is maintained and costs minimized.

In selecting the locations for its research and experiments, CGAP identifies two broad categories of countries – learning countries and sharing countries - though the lines between them are not always clear. For many of the learning questions that CGAP aims to answer, a certain level of readiness is required – whether by CGAP members, providers, governments or infrastructure providers. At the risk of over-simplification, these markets tend to have some degree of digital infrastructure in place, governments are on the higher end of the capacity spectrum, and providers are already experimenting with serving poor people. In these countries, CGAP engages directly with partners to conduct pilots and experiments and extracts lessons that are shared through knowledge products. This may include markets such as India, China, East Africa and Latin America and the Caribbean (LAC). Sharing countries, on the other hand, are ones where global learning has not yet taken hold, they may be at the lower end of the capacity spectrum, and few market actors see opportunities to serve poor people. CGAP's role is to help adapt global learning to these less advanced markets by working with development partners to modify or tailor the learning for take-up. These countries may include markets in Western and Central Africa, South and East Asia, MENA, and other countries where access and usage of financial services are below the global average.

4. CGAP VI Directions

4.1 Theory of Change

In response to findings of the CGAP V Mid-Term Evaluation (MTE), and more general feedback from members on a need to be more focused and strategic, CGAP has made important improvements to articulate strategic objectives, using Theory of Change frameworks. The advantage of this method is that it requires a clear articulation of the logic regarding the best way for an organization like CGAP to contribute to achieving collective, high-level impact. By mapping out the pathways and outcomes that lead to that impact, CGAP will be better positioned to prioritize and make trade-offs about the best ways to deploy resources toward achieving measurable and relevant outcomes. The Theory of Change is designed to be the anchor for CGAP's work, but it is not static. Rather, as CGAP's experience and knowledge evolve through the implementation of the CGAP VI strategy, the Theory of Change will be updated to reflect either validation of original assumptions or changes in the causal pathways.

Impact. The collective Impact Statement is:

Poor people are able to capture opportunities and build resilience

The Impact Statement is an articulation of the desired change as a result of CGAP's work. It is directional and aspirational. The impact is created not only by CGAP but by many other stakeholders who work on financial inclusion, poverty, and other issues that influence opportunities and resilience for poor people such as education, health care, jobs, among others. While CGAP can be held accountable for the outcomes it believes will contribute to the stated impact, it will take not only CGAP's work but the work of many others over many years to achieve.

The Impact Statement has been selected based on CGAP member input and features elements that CGAP's Operational Team believes are important to how financial inclusion can contribute to social and economic inclusion. Key elements include:

- **Poor people.** CGAP remains dedicated to addressing the needs of poor people and the various means by which they participate in society and the economy. People's needs will differ depending on gender, livelihood and demographic characteristics.

- **Capture opportunities.** The digital and information age is creating important opportunities for poor people which are likely to be different for men and women. Thus, the impact statement specifically calls out the importance of linking financial services to the ability of poor people to capture and capitalize on economic opportunities.

- **Build resilience.** At the same time, financial services have an important role to play in ensuring that the progress made by poor people is not lost because of unanticipated personal or macroeconomic shocks. This is especially important for poor women who may be more vulnerable to shocks.

One of the key lessons from the CGAP V MTE is that CGAP's objectives, results framework and accountability should be set at a higher level than individual initiatives. CGAP's work should be interconnected and mutually reinforcing; the value of the work as an organization should be greater than the sum of its parts. Connecting individual projects via higher level objectives allows CGAP to adapt over the course of the five-year strategy period to prioritize and add new work or drop areas of work that are not contributing toward higher-level outcomes. This approach is both best practice and necessary in this highly dynamic environment where accurately predicting all potential pathways for change is difficult.

Financial Sector Outcome. Below the collective impact statement is a Financial Sector Outcome which states the change CGAP expects to see as a result of not only its own work, but the work of the many other stakeholders who are actively engaging on financial inclusion. As such, CGAP is a contributor to this Industry Outcome but the outcome is a collective outcome and is not directly attributable to CGAP's work alone; CGAP is a contributor to this outcome.

The CGAP VI Financial Sector Outcome is:

Poor people use financial solutions relevant to their needs

The key features of the Financial Sector Outcome statement include:

- **Usage**. It is increasingly recognized that access alone will not provide value to poor people and that financial services are only valuable if they are used.

- **Financial solutions**. In light of disruption to the financial services value chain, financial services are evolving from a 'product' orientation to a 'solutions' orientation. The distinction of where one product ends or another begins is not necessarily clearly delineated.

- **Relevant to their needs**. For financial services to have value to poor people, they must address their specific needs and constraints. This will differ for men and women.

In order to achieve this high-level Financial Sector Outcome, CGAP has identified four Industry Outcomes that will collectively enable meaningful change for poor people. They touch on the market system around the delivery and use of financial services and therefore are closely intertwined. These four Industry Outcomes will evolve in parallel with each other but in different sequence depending on the country context. In addition, a fifth outcome linked to CGAP's influence model serves to accelerate the change that happens at the market level through CGAP's indirect influence.

The four Industry Outcomes for CGAP VI are:

Customers have information, incentives, trust, confidence, and networks to participate in the financial system.	**Providers offer affordable, responsible, and accessible financial solutions for poor people that are sustainable and at scale.**	**An infrastructure that enables ubiquitous, efficient, open, and safe markets is in place.**	**A policy and regulatory framework for responsible financial inclusion is in place and enforced.**

The fifth Industry Outcome reflects CGAP's indirect influence, which helps to accelerate market-level change:

Funders, global advocacy organizations, and local support organizations support responsible market development for the poor.

Any project work under CGAP VI will be grounded in achieving one or more of these Industry Outcomes. CGAP has established five pathways that clearly articulate how change is expected to happen and the assumptions being made. Progress against these outcomes is both actionable and measurable, and CGAP's work contributing to these outcomes can be clarified through target setting in its Results Framework and measured through monitoring and evaluation processes. Section 7.2 below expands on CGAP's Results Measurement process under CGAP VI.

Annex B provides a high-level view of CGAP's Theory of Change.[1]

[1] The full theory of change is an operational tool that will be updated regularly to reflect lessons from CGAP research, experiments and engagements.

5. CGAP VI Strategic Priorities

5.1 Creating Customer Value

5.1.1 Background

Digital technologies have been leveraged in financial services for poor people, but typically the aim has been to improve access and ease of delivery of services, not to increase the relevance of formal financial services to poor people's lives. As a result, accounts often remain unused or are used only to receive a payment and to cash out. This suggests that FSPs do not generate enough business value from poor people to make a compelling business case, and large numbers of poor people do not see value in the products offered. Hence, they remain financially and economically excluded.

Exclusion will persist if nothing is done to improve usage. To see progress, CGAP believes that the financial inclusion industry must tenaciously pursue ways to create value for poor people in using financial services. The opportunity to intensify these efforts is real, given the availability of new technology and tools (e.g.; data, remote sensing, etc.) and new players entering the market. Real value is created when poor people are both able and willing to use financial services that meet their needs. Improving usability will require several important shifts among industry actors including improving understanding of the barriers that influence usage by specific segments and supporting the mechanisms that increase trust and fairness of the financial system for poor people.

Addressing needs, behaviors and barriers of specific segments. The poor are not a monolithic segment and it is difficult to create meaningful outcomes without tailoring solutions to the behaviors and preferences of specific segments. This requires deeper analysis into segments of poor customers, not only to develop specific use cases but also, and perhaps more importantly, to understand why some segments may be excluded in the first place. The lack of connectivity and infrastructure in certain areas, the high cost of service and devices, and social norms put certain segments at risk of continued exclusion. Each segment may have slightly different constraints that impede its ability to use and benefit from financial services. Understanding the nature of these constraints will help generate insights that can be operationalized by providers and policymakers.

Increasing customer value through trust and fairness. While the proliferation of new products and businesses serving poor customers is to be lauded, they also create new risks around privacy, security, and fraud that will need to be mitigated so as not to erode the level of trust by customers or hamper adoption and usage. Because poor people have very limited margin for error in their financial lives, getting their "journey" right will be important to meeting their expectations and needs. Providers need to identify and adopt improved and responsible practices and regulators need to put in place protective measures that reduce harm and build customer trust and confidence in the financial system.

5.1.2 Link to Theory of Change

This strategic priority falls most neatly under the outcome: "Customers have information, incentives, trust, confidence and networks to participate in the financial system":

- Incentives: Poor people have reasons to use formal financial services when solutions are relevant and convenient. This requires that solutions either (i) adequately address a specific need they have ("pull" factor); or (ii) encourage them to use the offered solutions ("push" factor). Location and eligibility criteria are also key elements that can incentivize use.
- Information and networks: Poor people need to have access to timely and appropriate information to make informed choices. Social networks, by which the poor often receive trusted information, constitute a key channel to improve poor people's ability to understand and use financial services. Information and networks are especially important for improving household resilience to shocks as networks serve as a critical source of support when shocks occur.
- Trust and confidence: Poor people are likely to use financial services if financial services are perceived to be secure, inspiring trust and confidence. This sense of security can be achieved through multiple ways including positive customer experience, protections that can be relied upon if something does not go as planned, and reliability that the services are available needed.

5.1.3 Landscaping and Prior CGAP Work

Many development organizations have made important knowledge contributions by identifying solutions to advance the use of financial services by poor people, whether through applying the concept of customer centricity, improving the customer experience, investing in financial literacy, or by identifying solutions to bring poor people into the financial system. Many CGAP members and other development organizations have built insights into specific low-income segments and have produced guidance on identifying and addressing their needs and the barriers to financial inclusion. Finally, several donors and advocacy bodies are also exploring the role of policymakers in promoting usage of financial services.

Over the years, CGAP has worked on issues related to creating customer value. CGAP's work on Customers at the Center has helped financial service providers better understand their customers and design products and services that are relevant, leading to greater access, uptake, and usage. CGAP's research also has demonstrated the importance of information in improving decision making and protecting consumers. CGAP's Digital Finance Plus (DF+) work has demonstrated how digital finance can transform the delivery of essential services such as water and electricity while bringing people into the financial system. CGAP has a long history of working with partners on bulk payments to promote the adoption of digital financial services. Under CGAP V, CGAP worked on specific segments to understand key barriers and generate insights that were tested in pilots with providers. Segments included the extreme poor, smallholder families, and refugees/crisis-affected populations. CGAP also explored the role of women and the use of a gender lens to better understand challenges around access and usage for women.

Value creation is a concept that has been underexplored in serving poor people in the financial inclusion industry (see Box 5) and changes in data and technology are presenting exciting new opportunities to advance the concept. CGAP is well positioned to expand on the work begun in CGAP V to further this concept, generate and test new approaches to value creation. Additionally, as the concept of customer value is not only solved by supply-side issues, but also entails demand, infrastructure and policy considerations, CGAP's ability to work across these dimensions enables it to have a holistic view. For example, CGAP envisions that governments play a significant role in creating the right incentives to promote usage and in removing barriers that hold back development of relevant solutions.

Box 5: Responsible Finance, Consumer Protection, Financial Health?

Over the past decade, the financial services sector has evolved from a very supply-driven industry to one which has increasingly integrated a client-centric approach. The language the sector has used has evolved to reflect this shift. Concepts like responsible finance emerged after the over-indebtedness crisis in 2007-2008 in response to a demand to hold providers accountable for treating customers fairly. Responsible finance, which seeks to integrate consumer protection into industry practice alongside financial capability, remains a priority, but there is increasingly a shift toward concepts of quality and value to the customer.

In the United States, for example, the financial services sector currently uses the term 'financial health'. The Center for the Study of Financial Innovation (CSFI) states that, "Financial health is achieved when an individual's day-to-day financial system functions well and increases the likelihood of financial resilience and opportunity". CSFI and others working on financial health in the US measure financial health through four components: spending less than consuming; having sufficient liquidity for living expenses while also building assets; limiting debt to affordable levels while maintaining healthy credit scores; and being able to plan for the future including having resources to acquire insurance and cover future planned expenses. Given the abundant data landscape in the US, financial health is a useful framework for shifting the focus of the financial services sector toward dimensions of quality, and not just access. But what would financial health look like in developing countries? Can these concepts be adapted for the vast differences across markets – from countries like Chad to countries like India?

As CGAP moves into CGAP VI, providing support for the sector will be necessary as its thinking moves away from the narrower constructs of financial access toward broader concepts of quality and customer value.

5.1.4 Proposed Work under CGAP VI

The thesis for achieving this outcome is:

Real value is created when poor people are able and willing to use financial services. To enhance the value proposition of financial services, actionable insights on excluded segments are needed by a broad range of stakeholders. Value can be created by improving trust and fairness in the financial system.

There are two areas that CGAP expects to explore in CGAP VI:

1. **Generating actionable insights on excluded groups.** To ground CGAP's work on creating customer value, CGAP will undertake foundational research on barriers, needs and aspirations of priority segments and groups. The research will help to identify the scope of potential CGAP engagement, stakeholders to engage with in reaching excluded segments, and the role that financial services can play in addressing the needs of these segments. CGAP has already invested considerable resources in generating insights on the smallholder segment and will work under CGAP VI to operationalize the findings of that primary research. More recently, CGAP has embarked on research about women and the use of a gender lens across all segments, and will carry that work forward into CGAP VI. Beyond this work on smallholders and using a gender lens, CGAP proposes to examine a further one or two segments during CGAP VI (see Box 6). For each new segment, CGAP will leverage existing knowledge to build deeper insights, integrating and assessing demographic dimensions where appropriate. As insights are generated, CGAP will integrate the learning across its own work program by informing CGAP's pilots with the private sector and governments, as well as integrating it as appropriate into the work of members and other stakeholders who implement on the ground (see Box 7 for an example on using a gender lens across CGAP's work program).

Box 6. Prioritizing Segments

To help prioritize segments, CGAP undertook an extensive evidence based exercise using FII and FinScope datasets to identify segments at risk of social and economic exclusion. This exercise has led to an initial short-listing of potential segments of focus for CGAP VI.

New segments under consideration are youth, refugees and migrants, and occasional workers receiving irregular pay but with no distinguishable skills (e.g.; cleaners, drivers). In researching these segments, CGAP will take care to distinguish between aspirational aspects and marginalization aspects affecting each segment, assessing solutions that reflect each segment's need to build opportunity for itself as well as to protect itself from marginalization. Youth and migrants are likely to fall on the aspirational side of the spectrum, while refugees and migrants may require services that are focused on reducing marginalization. A gender lens across all segments is also needed to ensure gender-related barriers and learning is integrated.

2. **Research and partnerships to support increased customer value.** CGAP will explore how regulators and supervisors can create new approaches to consumer protection that incentivize private sector business models to better protect and create value for low-income customers in a rapidly changing digital context. The underlying hypothesis of this work is that an emphasis on understanding segments and generating related insights will drive customer value, defined as appropriate products, consumer protection and fair treatment. The aim is to move from more "prescriptive" consumer protection regulation that focuses on avoiding negative customer outcomes to a more outcome-based approach focusing on positive outcomes based on a constructive dialogue between the regulator and providers. The aim is to contribute to a shift in focus within the financial inclusion community, from access to financial services to sustained use of those services driven by the value they bring to poor customers. CGAP will analyze existing approaches and experiences that balance the objectives of "doing no harm" and "doing good" with a focus on customer outcomes, relevant for regulators, supervisors and FSPs.

Ultimately, financial sector providers will also need to increase the use-cases of financial services for poor people by addressing their needs. CGAP's work on emerging business models and enabling infrastructure are designed to focus on improving use cases for poor people.

Box 7. Embedding Insights on Women across CGAP's Work Program

There is growing recognition that every excluded segment needs to be assessed using a gender lens. This requires a broader understanding of how gender influences all aspects of the customer journey, from client acquisition to frequency of usage. There are also significant differences across regions in women's roles and cultural norms, requiring a differentiated learning agenda across regions.

CGAP's work on emerging business models, enabling infrastructure and policy will integrate a gender lens. This entails ensuring that sufficient gender analysis has been undertaken in the design of a project, that learning questions take into account what is already understood with regard to gender constraints, that opportuntieis to test learning questions that address a known gender constraint are included whenever possible, and that analysis of the findings highlights and differentiates gender-related findings.

In CGAP V, CGAP piloted work with Juntos Finanzas to test if instant messaging could increase customer usage of mobile wallets. Research in the Philippines found that men and women were responsive to different messaging; gender targeted messages were more effective in influencing customer usage than standard messages. Research in Paraguay did not find significant difference between men and women's responses to different types of messages. CGAP was able to extract useful lessons for others who are looking to scale women's financial inclusion.

5.2 Emerging Business Models

5.2.1 Background

The rise of digital payments has been one of the most promising financial inclusion innovations of the past decade. Today, more than 690 million people globally are connected to basic mobile payments services (GSMA 2017), allowing them to easily, affordably, and remotely send money or pay bills. Leveraging these payments services allows third party providers to offer additional services, such as credit, savings, insurance as well as other non-financial products, at a marginal cost, giving poor people access to a broad range of solutions that could be life-changing.

Increased smartphone adoption and internet access combined with new mechanisms that enable payments providers to more easily integrate new use cases, are likely to expand digital payments adoption, further enabling new and more inclusive business models for customers in developing countries. Digital platforms that integrate a range of use cases make digital payments more relevant and more appealing to customers as can be observed in China today. Increasing the volume of digital transactions helps the underlying payments business grow. It is possible that increasing the use of digital payments enables more affordable services, enabling providers to more easily reach lower income segments. Greater business potential combined with responsible practices strengthen the likelihood that financial services can deliver value for customers, as well as generate more revenue for providers.

The spread of open and low-cost digital payments brings important opportunities for incumbent financial service providers (FSPs), although not without challenges. Increased operational efficiency and expanded reach could allow banks and microfinance institutions to quickly and viably grow beyond their physical footprint and provide financial services to the poor (see Box 10). Through data analytics they can onboard new customers and more effectively manage risk. More customer data and improved cost structures could allow providers to design more affordable and better tailored products such as credit, savings, and insurance. The challenge for incumbents is to adopt more data-driven approaches, improve their technology and systems, and generally adopt new digital skills. New players like Fintechs are leading the way on this either providing financial services directly or in partnership with established providers. For example, DBS Digibank India takes advantage of remote biometric authentication, simplified accounts, and open access to payment accounts to operate a fully digital bank keeping costs to a minimal compared to its rivals (e.g.; according to DBS, their back office operating costs are one fourth of those of traditional banks). Similarly, Nubank and Kubo in Latin America offer products with superior features and more affordable pricing than the established market players.

The shift to a new and hyperconnected digital world also enables new players to drive access to financial solutions that perhaps could reach poorer segments. BigTechs like Google or Alibaba are creatively embedding financial solutions in their offerings, and could respond well to different customers' needs. Social networks and messaging platforms like Facebook and WeChat could help accelerate the adoption of digital payments by embedding financial transaction into social interactions, while generating valuable data that could open more avenues for better tailored services. In China, WeChat has transformed the day-to-day lives of millions of people who conduct most of their financial transactions through a handset. WeChat is only one among several providers who offer convenient access to a range of relevant services in that market. By 2025, McKinsey estimates that 10 to 25 percent of the financial sector's growth in China will be driven by internet providers.

Most importantly, data and interconnected ecosystems create business opportunities for new providers, transcending the role of traditional FSPs. Providers are integrating financial solutions into other value chains such as health, sanitation, education, clean water, and energy using improved application programming interfaces (APIs) and improved use of data. The digitization of payments and the bundling of finance with the sale of assets is demonstrating in several sectors how financial services can expand the reach of other development solutions. Provided responsibly, such integration would allow financial services to deliver impact to poor people's lives while meeting other needs.

Gains in productivity from digital payments and other novel financial solutions open a spectrum of investment opportunities for a broad range of investors in both the public and private sectors. These opportunities help leverage the private sector to achieve the SDGs and increase overall welfare.

Box 8: Supporting MFIs to Adapt to the Digital Age

Few incumbent financial services providers can continue to operate successfully without adapting to technological innovation. MFIs, which already have a strategic focus on the poor, can benefit from lessons learned by their more pioneering counterparts to ensure they appropriately leverage the power of technology and its transformative role in reshaping the financial services industry. Some lessons from MFI efforts to embed digital finance into their business models to date include:

1) **Start with a clear business plan**, explicitly examining how technology can serve the core business, from both revenue and cost perspectives.
2) **Utilize agent networks**, rather than building out new branches, but make sure growth in number of agents is matched by adequate transactional volume.
3) **Invest in IT platforms that enable growth and adaptation.** Legacy IT systems are a bigger barrier to efficient growth than branches.
4) **Get started on digitizing and using customer data now,** rather than being daunted by the more complex task of digitizing historical data. Invest in data analytics capabilities.
5) **Be customer-centric.** MFIs are already close to their customers. Stay true to this as it gives MFIs an advantage over purely digital solutions.
6) **Leverage digital infrastructure through partnerships**. Follow developments in the industry and come prepared to negotiations with potential partners.

Source: Adapted from April 9 CGAP blog by Greta Bull

5.2.3. Link to Theory of Change

This strategic priority falls under the outcome: "Providers offer affordable, responsible and accessible financial solutions for poor people that are sustainable and at scale":

- <u>Responsible and affordable</u>: Open and low-cost digital payments and an increasingly interconnected ecosystem help providers offer more low-cost credit, savings and insurance and non-financial solutions that are suitable for poor people. An increase in the number of solutions and volume of transactions translates into new use cases (new customers, more transactions per customer) that will reduce unit transaction costs, making services more affordable. The variety of new providers emerging requires new approaches to responsible finance for both incumbent and new providers.

- Accessible: Open and low-cost platform business models facilitate the launch and reach of third party services, creating increased volumes of transactions, and in turn increasing the likelihood that providers expand physical access points, including to higher cost, rural areas.
- Sustainable: In addition to improving affordability for customers, low-cost payment systems improve the sustainability for firms: increased services generate more revenues and improve financial returns. Access to capital through different partnership structures is also a key driver of sustainability. Partnerships that embed digital finance in other (non-financial) value chains expand the sources of revenue resulting in higher potential for financial sustainability.

5.2.4 Landscaping and Prior CGAP Work

Globally, many organizations contribute to important work on business model innovation. Donors who are working in other development areas such as energy, water, and health are also exploring ways to leverage DFS tools. Some industry associations drive an agenda on DFS that is more focused on their members. Other think tanks and consultancies also work in this area with a more targeted focus. As the space of innovation evolves, actors that are working on creating connectivity and data assets are becoming increasingly relevant because their work will enhance financial inclusion approaches (e.g.; inclusive digital society, satellite imagery repository).

During CGAP V, foundational work was delivered on a number of topics related to product and business model innovation, data analytics, and the development of more efficient and open digital financial ecosystems, which will ground future efforts under CGAP VI. CGAP supported the development of new digitally enabled products such as digital credit, PAYGO solar as well as testing emerging technologies such as FinTech innovations and distributed ledger technologies. CGAP was also involved in supporting FSPs in the use of data analytics and market-level data. Finally, CGAP supported the development of broader and more open digital ecosystems through payments interoperability and Open APIs.

5.2.5 Proposed Work under CGAP VI

The thesis for achieving this outcome is:

The rapid expansion of digital payments, the diversification of use cases, and improved effectiveness of digital service delivery models increase opportunities for solutions that could be more suitable to meet the needs of traditionally excluded segments. Beyond savings, insurance, and credit, emerging business models and business partnerships create new opportunities for expanding the delivery of non-financial services and enable businesses to develop sustainable solutions (in finance and other sectors). This may expand the spectrum of opportunities for both public and private sector investment and could translate into tangible value for excluded customers, including the poor.

There are four areas that CGAP expects to explore in CGAP VI:

1. **Analyze the evolution of market structure, including incumbents' responses to evolving technological opportunities and challenges.** CGAP will study how emerging markets are evolving into a more disaggregated financial services value chain, the way this leads to increased participation of new players, and how this might change the economics of financial services. CGAP will also look at how new large-scale Internet platforms ("BigTech") are moving into financial services provision (directly or through partnerships). It will aim to clarify the synergies and levers through which BigTech platforms could support progress in financial inclusion. It will also look at emerging national platforms and their role aggregating large customer bases. CGAP will build on its work on FinTech and new banking models, looking at how transformation of incumbents could enable them to offer better

products and services to BOP customers. Additionally, CGAP will evaluate new technologies such as blockchain and artificial intelligence/machine learning to understand the potential to substantively improve financial service provision that could increase opportunities for financial inclusion.

2. **Explore how digital finance solutions resulting from emerging business models may be better suited to meet the needs of poor customers.** CGAP will analyze the characteristics of emerging business models including the way improved cost structures and digital capabilities may encourage established FSPs to expand their reach into lower income segments. CGAP will also explore the opportunities that emerge from "open banking" models for poor people when FinTechs and BigTechs are able to integate into larger payment systems. Finally, CGAP will explore the role of data to better tailor solutions to customers' needs, especially as smartphone penetration increases.

3. **Demonstrate solutions that leverage financial inclusion to address development challenges.** CGAP will work with providers, impact investors and the broader development finance community to facilitate the development models that effectively use financial inclusion to solve a development challenge. Building on work in CGAP V, CGAP will expand work on the use of the PAYGO solar model into an investable asset class and facilitate market building to scale up of such a model. Work on other development challenges will include a focus on water, education and potentially health.

4. **Explore how new partnership structures, particularly those involving financial and nonfinancial services, can attract private capital and enable new models for combining public and private investment.** CGAP will help identify cases where public funding is needed to facilitate the testing and proof of concept of innovative business models and/or provide the initial seed capital for businesses to become self-sustaining. CGAP will characterize the financing mechanisms needed to scale business models that leverage "digital rails". More broadly, CGAP will demonstrate opportunities for partnership among funders, development agencies and the private sector to scale business models.

Box 9. Education as a 'Pull' factor for Greater Usage

CGAP partnered with Fenix International in Uganda to design and pilot a loan to help customers manage their education expenses. Fenix, a company best known for providing pay-as-you-go (PAYGo) solar home systems, created a business model that reaches low-income, rural, smallholders who are beyond the reach of most financial institutions, including MFIs. Fenix's core product is a digitally financed clean energy asset. The product enables familiarity with financial solutions and creates a digital data trail that can be used to underwrite other solutions, such as education loans.

With nearly one in three Fenix clients claiming that a child had been sent home from school due to a lack of funds, expanding into education loans appealed to Fenix's existing clients. In fact, most Ugandan families, both above and below the poverty line, have struggled to pay for school. Forty percent of families with an unenrolled child said school fees were preventing them from enrolling.

Financial services, while not solving all education related barriers, play an important role in facilitating education outcomes. Positive preliminary results from the pilot include the majority of customers reporting children missing fewer school days and improved grades. More research and experimentation is needed to see if and how new business models, such as PAYGO, can address challenges faced by the poor.

5.3 Enabling Infrastructure

5.3.1 Background

In a digitally connected world, shared market infrastructure offers huge potential to bring down costs and make financial services more affordable and accessible to poor people. Getting there however faces significant hurdles, particularly from providers who have invested significant capital in building private networks and payments systems that they perceive give them a competitive edge. Yet pressures for change are building as technology disrupts the marketplace, bringing in new competitors and opening up space for new methods of cooperating. CGAP sees an important opportunity to advocate for and demonstrate the benefits to shared market infrastructure. Different models for creating market infrastructure have evolved over the years, some delivered or mandated by regulators and others emerging from agreement among private sector entities to collaborate (see Box 10).

The move to a shared infrastructure is complicated by several trends. Traditional payment systems are being challenged by the entry of new players, such as mobile network operators, FinTechs and social media companies. Traditional credit reporting systems are being challenged by new methods for gathering and analyzing financial and alternative sources of data. At the same time, market infrastructure is being improved by new technologies that improve identification of customers and distributed means of verification. Technology is disrupting the financial sector where it is most inefficient, notably in the areas of remittances, payments and credit. But while technology can play an important role in developing efficient market infrastructure, it also frequently requires parties to come together in a clear governance structure, underpinned by agreed rules and viable business models.

In the digital age, data will increasingly become an asset, both for customers and for providers. Shared information infrastructure harnesses data in ways that provide a more complete picture to financial services providers. Big data, artificial intelligence and alternative data sources such as social media will provide more dynamic ways of understanding consumer behavior and appropriate financial solutions for the poor. Beyond this, there are interesting applications for pooled data resources in credit rating , fraud prevention, identification and e-KYC applications. But data analytics also comes with risks about how those data are being used, how to avoid discriminatory impact, how securely data is stored and protected and, more broadly, who controls consumer data. In line with CGAP's earlier work on responsible finance, advocating for and integrating work on responsible use of data enables the integration of responsible practices from the onset.

A constructive interplay between private and public sectors is absolutely crucial to the development of enabling market infrastructure, and having a clear understanding of how each can play to its strength will be important in knitting the digital financial ecosystem together. The rules of the road also need to adapt to allow more specialized firms (especially non-banks, FinTechs or managed third party providers) to contribute. Understanding how the classic public and private roles change in a new enabling environment is also critical. There is already evidence of functions changing and roles blurring: private actors provide and manage "public" infrastructure; regulators expressly allow providers to innovate within "sandboxes" before new services are launched or rules adapted; and donors act like investors by taking equity stakes in promising tech start-ups. The old rules and approaches need to be re-thought and fundamental assumptions reset. And as new infrastructures evolve, it will be important to develop industry standards in parallel, both to enhance their utility to industry, but also to ensure that there is fair access to market infrastructure for all.

Box 10. Models for Creating Connected Market Solutions

Different approaches have been taken to building new and more sophisticated market solutions in recent years, facilitated by technology. Notable examples include:

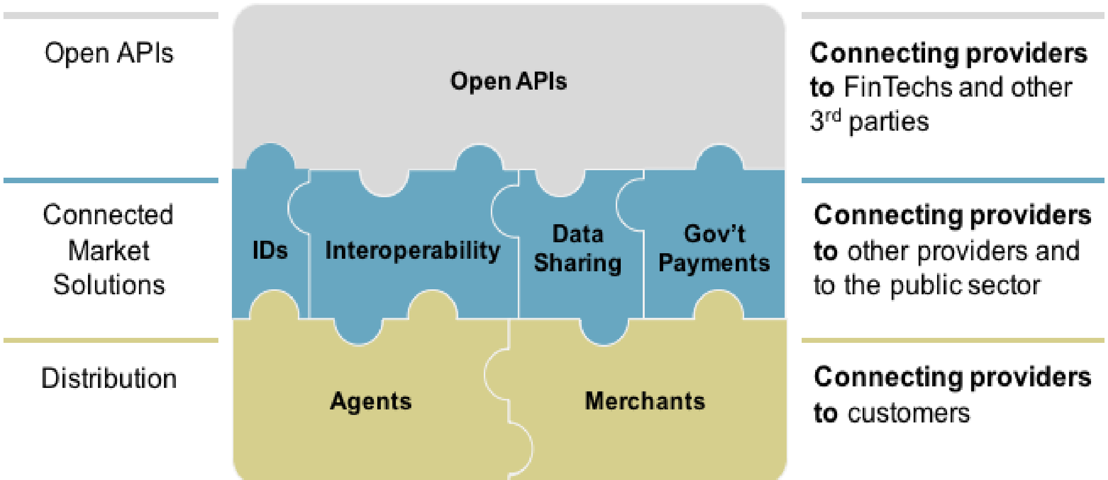
- **Public and private goods mix with the India Stack:** India has taken perhaps the most comprehensive approach to building connected market solutions. The core components are built upon four foundational pieces of infrastructure with a mixture of public and private goods. The Aadhaar biometric identification system is managed purely as a public good. Basic accounts for all citizens can be held in state or private banks and authorized non-banks. The open-loop interoperable payments system is collectively owned by financial institutions and operated by a third party. Simplified messaging protocols have been established by both government and industry participants. While the India Stack incorporates participation from both the private and public sectors, it is highly unlikely that such a sophisticated and integrated infrastructure would have evolved without a strong push from the Indian government, which originally developed this infrastructure to reduce leakage in the distribution of state benefits.

- **Private sector 'coopetition' in Africa:** In contrast to India, connected market solutions in many African countries is emerging as a result of collaboration between private sector players, with quiet encouragement from regulators. Tanzania created mobile payments interoperability through a collaborative industry approach that recognized that operators had more to gain from creating one big open loop payment system rather than competing against one another in four smaller closed loop systems. Building on this early success, operators across Africa are looking at other use cases where interoperability can serve their common interests.

- **Incremental evolution in Peru:** Peru has experimented for over 40 years with new approaches to financial inclusion, leveraging its long and successful history in microfinance to build new shared infrastructures that will help providers reach low-income customers. Its credit reporting industry is well-established and supports the market well, but will have to continue to evolve to incorporate new methods of data gathering and managing the related risks. More recently, the Bankers Association of Peru has come together to build a shared mobile payments and agent infrastructure through a jointly-owned service provider, BIM. The regulator supported the initiative simply by requiring mobile network operators to participate by making the USSD channel available. Given the incipient state of mobile payments in Peru, it is not yet clear whether the BIM experiment will succeed, but it is a good example of an incremental public-private approach to building market infrastructure through collective enterprise and a supportive regulator.

Three topics in particular are required to develop connected digital ecosystem. Figure 1 below depicts these building blocks: Distribution, Connected Market Solutions and Open APIs. One theme which runs across the three topics is that of connectivity - between providers and customers (Distribution), between providers with each other and with wider private and public infrastructure (Connected Market Solutions), and between providers and the FinTechs and other 3rd parties that would like to leverage their assets and capabilities (Open APIs). In many cases, significant infrastructure and capabilities already exist, but better connectivity increases efficiency, extends reach, reduces costs, increases competition and allows for a wider range of payments use cases.

Figure 1: Connecting the Ecosystem's Building Blocks



5.3.2 Link to Theory of Change

This strategic priority falls most neatly under the outcome: "An infrastructure that enables ubiquitous, efficient, open, and safe markets is in place":

- Ubiquitous: Enabling infrastructure can make it possible to service hard to reach customers, particularly in rural areas. Where shared solutions are not commercially viable, government subsidy may make them functional at the margin, lowering costs for government transfers while supporting a viable business case for providers.

- Efficient: To bring costs down, financial services must be provided at scale. The need for efficiency will eventually drive consolidation into larger networks, helping to bring costs down.

- Open: Infrastructure that is open rides on a broader set of digital rails than closed infrastructure, providing benefits for customers, providers and regulators. Customers can make payments and utilize their data with less cost, accessing a wider range of products. Providers can tap into a wider ecosystem of both payments rails and data to build and deliver new products, and regulators can demand better data on the operation of the financial system when providers are licensed and overseen according to proportionate standards.

- Safe: Open infrastructure forces greater clarity around the management of digital public goods and enables development of standards and protocols, protecting customers and other market participants.

5.3.3 Landscaping and Prior CGAP Work

Important work is underway on market infrastructure, some of it very traditional and other parts of it very new. A few CGAP members have a long history of building the supporting infrastructure necessary for lending activity, wholesale payments in the banking system, and more recently on identity matters. Others are advancing work on shared and open retail payments infrastructure.

CGAP has become increasingly engaged in the market infrastructure space under CGAP V. Examples include projects focused on interoperability in East Africa, revisiting foundational work on distribution networks, building more efficient government payment mechanisms for the delivery of direct benefit transfers in South Asia, and supporting the development of open APIs. Given the importance of market infrastructure to the emergence of inclusive financial systems, CGAP's work is expected to expand in this area under CGAP VI. As it is a rapidly evolving area, CGAP's engagement will likely evolve dynamically in response to market needs. And given that there are public good elements to market infrastructure and standards, it is also an area where donors can play an important development role.

This space fits CGAP's comparative advantage as a non-commercial player that can integrate a systems perspective with both private and public sector actors.

5.3.4 Proposed Work under CGAP VI

The thesis for achieving this outcome is:

Many parts of the digital ecosystem (and beyond) are already in place. When open and connected, the digital ecosystem increases efficiency, extends reach, increases competition and lowers costs. Ultimately, this will lead to more accessibility and usage for low-income customers.

CGAP will aim to increase connectivity in three areas:

1. **Distribution.** A considerable amount of foundational work on this topic has been done by CGAP and other organizations. CGAP will take stock of the existing knowledge base about building out agent networks and digitizing retail merchant transactions, including completing and disseminating work that began under CGAP V. CGAP will also conduct a thought exercise involving analysis of what is known with some light-touch research and convening of a small group of experts. This exercise will result in a framework that summarizes where we are today, what has succeeded and what has failed and what remains to be done.

2. **Connected Market Solutions.** Rather than becoming deep experts on all potential market solutions, CGAP will focus on: 1) strategic pilots, tools, and resources on topics that most directly align with CGAP's mission (e.g., G2P architecture, payments interoperability); and 2) learning and influence around the interplay between these topics with the aim of advancing market-level structures that are greater than the sum of their parts. One component of the Connected Market Solutions work is the East Africa Community interoperability work, under which CGAP is facilitating an open, structured process for DFS providers to develop a set of agreed scheme rules, governance/management structures and technical requirements for cross-border DFS interoperability in the region. Lessons from East Africa will be applied to inform payments interoperability elements of connected solutions in other markets.

3. **Open APIs**. The open APIs work will seek to achieve enhanced access to the DFS rails for third-party providers; increased innovation and diversification of use cases on offer for customers; extended reach of distribution networks; and increased customer control over their data and money. CGAP's work will incorporate and build on ongoing work on Open APIs. This includes work with providers to produce demonstration cases for open APIs around payments, data, and agents, and it will document evidence of effects on Fintechs and other API-reliant innovation. The work will link to Fintech communities in markets where we support Open APIs and will seek to uncover how access to DFS providers' platforms reduces the cost of market entry, improves the ability to launch and scale successful B2C products, and enhances the economics of distribution networks. The work will identify areas of high potential impact for financial inclusion when DFS providers open their APIs, and will communicate lessons from the experiences of early movers (CGAP partners and beyond) to ensure subsequent providers are able to benefit from their experiences.

5.4 Next Generation Policy

5.4.1 Background

Policy remains critical to achieving and sustaining success in financial inclusion. Yet the world is fast changing, increasingly complex and interconnected. New financial technologies are quickly changing finance nationally, regionally, and globally, making financial services increasingly modular, disaggregated, and transnational. Policy adopted before the advent of these innovations could impede inclusion and could also leave critical gaps, exposing the financial system and consumers to breaches in financial integrity, detrimental market conduct, and, in extreme circumstances, even systemic instability. If change is driven solely by technology and providers without clear rules, the world will likely become messy, un-connected, sub-optimal and vulnerable to crisis and greater exclusion.

A decade ago, CGAP identified four critical regulatory preconditions that enable innovation in financial services to serve the poor: (i) authorization of non-bank agents; (ii) flexible Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards; (iii) appropriate regulatory space for the issuance of stored-value instruments; and (iv) effective consumer protection. Today, numerous developing countries – the early-adopters – have addressed these policy issues and many have seen their markets expand. Later-adopters are learning from the pioneers, accelerating their own development and in some cases leapfrogging past those who started earlier.

For the early-adopters, market development presents a new challenge: how can policymakers supervise new players and monitor market dynamics? This challenge is compounded by the range of new actors entering the system, the high volume of digital transactions, and the larger number of users. Overcoming these challenges will require new ways of thinking, new tools and risk-based (rather than compliance based) approaches. Technology-driven financial services can mitigate some risks, transform or shift others, and create new risks. The capacity of supervisory authorities to monitor these changing risks will be critical to optimize limited resources, protect customers and stay ahead of potential crises.

Critically important when early-adopters begin to reach scale is ensuring consumer resilience and providing better opportunities. Policy must begin to establish new modes of effective consumer protection to guard against shifting risks posed by emerging technologies and new delivery models. The vast accumulation of digital data on consumers, to cite perhaps the most substantial and un-addressed issue, calls for a new paradigm for protecting data.

Other questions taking on heightened importance include regulatory harmonization and ensuring a more level playing field. For example, some countries have multiple rules for agent management, creating an uneven playing field for different kinds of providers. Moreover, as financial services business models become disaggregated, regulators must decide which actors are liable for which types of misconduct. Data protection and competition regulation are often similarly fragmented across different laws and regulatory authorities. Further questions emerge on market structure and competition: for example, does existing regulation create entry barriers, or do gaps in regulatory or supervisory coverage leave incumbents burdened and new entrants unsupervised? What can or should be done to ensure fair access to communications channels, e-commerce or social network data when they are controlled by a few firms that also want to offer financial services? Such questions, not on the horizon a decade ago, will rise in importance in the years ahead.

Furthermore, government policy, beyond financial sector policy and regulation, such as policies on telecoms and Internet access, safety nets, and taxation may have far broader implications for financial inclusion progress than previously thought. This has been most readily visible in the Asian giants, China and India, where technology and policy are combining to change the landscape. Government investments in new infrastructure – such as India's national ID program Aadhaar – fundamentally change how banking and payment services can be offered. In China, decades of investment in Internet access and bank accounts created the connectivity that enabled Alibaba's ecommerce platform. Alibaba's subsequent size and connectivity enabled it to branch out to become a major financial services provider.

5.4.2 Link to Theory of Change

This strategic priority falls most neatly under the outcome: "A policy and regulatory framework for responsible financial inclusion is in place and enforced":

- Fair and stable: For customers to be able and willing to participate in the financial system, they must trust and have confidence in it. Governments must demonstrate that regulation and supervision is fair and will protect customer interests – shielding them from bad practices and ensuring stability.

- Open and competitive: For providers, the regulatory environment sets incentives to expand services and lays out rules for their conduct. Rule makers must balance between innovation and stability, while fostering appropriate competition and cooperation. Policy and regulation will also be an early determinant of infrastructure. Combined, financial sector regulation and open infrastructure can improve market efficiency and reduce cost to both providers and customers.

Policy and regulation are critical and foundational pillars in all of CGAP's theory of change, though on their own are not enough to deliver on the higher-level goals. Policy and regulations will need to be complemented by progress with providers, infrastructure and client behaviors as well.

5.4.3 Landscaping and Prior CGAP Work

For almost two decades, CGAP has collaborated with and advised country-level regulators and supervisors to promote and oversee inclusive financial systems, originally with microfinance and more recently with digital finance. The digital finance work began by identifying the early regulatory enablers and working with in-country regulators to implement new rules. For the past five years, CGAP has sought to demonstrate, through country-level research and regional and global dissemination activities, that financial inclusion can contribute to, rather than undermine, the traditional stability, integrity, and consumer protection objectives. Over the past decade, CGAP has engaged increasingly with global SSBs, helping to ensure that their standards and guidance reflect the shifting risks posed by digital innovation and address the realities faced by policymakers, regulators and supervisors in emerging markets. These complementary streams of engagement at the country and global bodies levels continue to position CGAP with legitimacy and influence with a range of audiences.

Today, many organizations are involved on policy and advocacy work related to financial inclusion. For example, industry associations advocate on policy and regulation, while international organizations, development agencies, and foundations have all worked on regulatory and supervisory practices and capacities. Still others are engaged specifically on regulatory technology, seeking to harness the potential of distributed ledger and artificial intelligence to reduce providers' compliance costs and improve supervisory efficiency and effectiveness. Some are now exploring how experience with regulatory sandboxes and other means of engagement with the private sector are facilitating innovation. Several organizations have made significant contributions to the field of consumer financial protection and financial health. CGAP collaborates with many of these players, in some cases providing resource-intensive (and often un-seen) support, leading working groups, drafting policy papers, advising and consulting. In this way, CGAP provides significant leverage by lending its expertise to its partners.

CGAP's comparative advantage in this increasingly crowded space has several dimensions. One is the ability to synthesize across regions and to integrate both market developments and policy into market wide insights. Another is to be a trusted and technically well-informed voice to policymakers. Equally important is to be a neutral arbiter with respect to market players and the private sector, which may have more self-interested stakes in regulatory outcomes. These comparative advantages are important in a fast-changing world where a well-informed dialogue between providers and innovators and policymakers is ever more vital.

5.4.4 Proposed Work under CGAP VI

The thesis to achieve this outcome is:

Policymakers, regulatory agencies and supervisory authorities need to adapt skills and be incentivized to implement inclusive and safe financial services markets. With the right skills and incentives, countries will be able to seize the transformative opportunities made possible by technology, while ensuring that regulation and supervision proactively protect consumers and the stability and integrity of the wider financial sector.

CGAP's proposed efforts in these areas would be broadly in three areas.

1. **Creating appropriate (risk-based) supervisory approaches.** The linkages between inclusion, stability, integrity and consumer protection create challenges for supervisors committed to applying a risk-based approach to supervision. The challenge is compounded today as new kinds of non-banks enter the equation, such as non-bank e-money issuers, large retail chains, and social media platforms. CGAP's work can help re-frame and test risk-based supervision approaches. An important new area to explore is how to leverage technology for more efficient and effective supervision, expanding and adapting "regtech" to strengthen the hand of those charged with market oversight.

   There is a broader question of how newly emerging digital payment systems ought to be supervised – especially with the proliferation of new payment companies. This will require careful consideration about supervising market participants versus oversight of risks in the payment system overall. CGAP's work can help to refine a more nuanced understanding of what kinds of companies deserve different levels of supervision and how to balance this with oversight of the payment system in aggregate.

2. **Addressing basic and emerging regulatory challenges.** As noted above, regulation remains critical. For some countries, embracing the basic regulatory enablers that will allow markets to develop remains the priority. CGAP can work with members and other stakeholders to help these late-adopters to accelerate progress and learn from the missteps and wisdom generated by pioneers elsewhere. Equally important, given the accelerating pace of change, will be identifying, understanding and determining how to address emerging regulatory issues in faster developing markets.

   As business models evolve, CGAP can help assess and explain to policymakers new market structures. The entrance of new players challenges incumbents and can enhance competition. But it can also introduce a new class of dominant player, such as bKash in Bangladesh or M-PESA in Kenya. CGAP can also actively study the progress of transnational BigTechs like Alibaba, WeChat, Google or Facebook, whose dominance in the realms of commerce, data or social networks might enable them to exert concentrated market power in financial services. In all cases, regulators and competition authorities must weigh the potential public benefits of economies of scale against more concentrated market power. CGAP can help shape the narrative, terminology and tools for understanding and addressing these emerging questions about market structure with the goal of ultimately shaping better outcomes for poor people.

3. **International Standards.** Standard setters and other global bodies face increasing convergence of interest driven by the incorporation of financial inclusion in financial sector policymaking and rapidly scaling innovation, much of it relevant to inclusion and much of it transcending national boundaries. Existing standards and guidance developed for legacy products, providers, and regulatory and supervisory frameworks are no longer adequate and the bodies that develop them must also adapt. An efficient forum is needed to formalize current ad hoc mechanisms for information sharing and collaboration among them, to fill gaps and harmonize treatment of crosscutting financial inclusion issues. Relationships with innovators and providers generally must also be re-thought, while concern for customer outcomes must be elevated to a core objective shared by all. CGAP will support the standard-setting bodies (SSBs) and other relevant global actors to build their own forum for information sharing and collaboration on crosscutting issues related to financial inclusion.

4. **Data privacy and protection**. The use of data is fundamental for financial markets to work efficiently. Market actors, including FSPs, customers, and regulators collect data for their varied needs. In an increasingly digitized world, vast quantities of data are generated every day, allowing personal information to be combined with data from varied sources for financial services delivery. This presents both opportunities and risks. CGAP aims to play a thought leadership role envisioning a future where personal digital data is optimized to benefit the interests of the poor including being harnessed to build new and better services, and the risks relating to the increased use of customer data are mitigated. Data protection measures, such as portability, can help promote competition.

6. Sector Support to Scale Impact

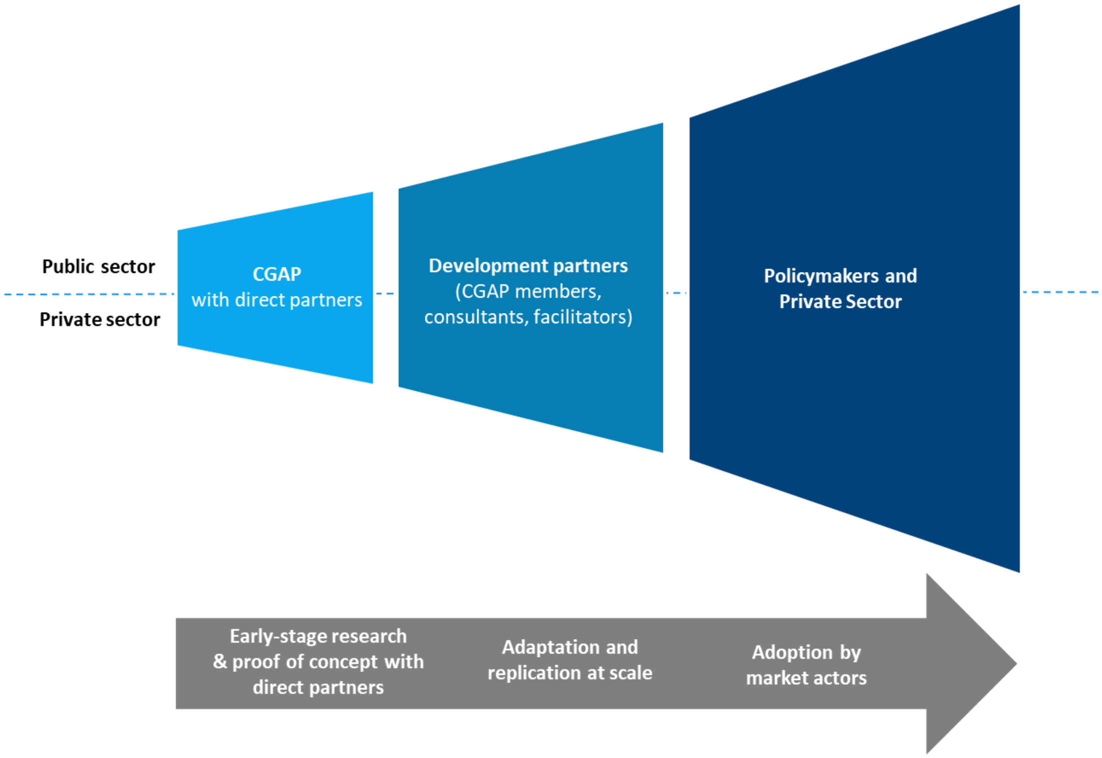
6.1 Influence Model to Scale Impact

To implement and scale learning beyond direct learning partners, CGAP works closely with other financial inclusion stakeholders including CGAP members, market facilitators, industry bodies and development institutions (see Figure 2). These organizations each have different roles, objectives and comparative advantages that can contribute to achieving the CGAP VI collective impact articulated in the Theory of Change. This complementary approach is intentional and is a critical aspect of CGAP's influence model as a global think tank and donor consortium. As a global think tank, CGAP undertakes practical research and experiments with an explicit view toward identifying solutions and extracting lessons that can be taken to scale by other sector actors. They, in turn, apply those insights in their work programs and influence the market actors with which they work. Because CGAP works on barriers and opportunities across the financial system, partnerships will vary based on audience needs and potential solutions.

The leverage-for-scale model requires not only partnerships but also an understanding of the barriers that these partners may face in translating learning into national or global-level initiatives. These constraints may include operational knowledge, internal capacity and incentives. CGAP's approach is to facilitate the development of mechanisms that address these constraints in a variety of ways ranging from leadership of or participation in working groups for these partner organizations, board membership, guidance and advisory support, collaborative projects, joint events, publications, and information sharing.

Because CGAP relies on other sector actors to implement and scale its learning, support is part of our remit and an important part of our influence model.

Figure 2: Influence Model to Scale Impact



6.2 Demonstrating Pathways to Impact

Understanding the pathways through which financial services improve poor people's lives is critically important to achieving the collective goal of supporting poor people to capture opportunities and build resilience. By better integrating existing evidence and guiding future research, CGAP can ensure that its work rests on robust empirical and theoretical foundations. It can also help support CGAP members who require evidence to support their continued prioritization of financial services in light of other global priorities as outlined in the SDGs. Where evidence is lacking, CGAP can serve as a conduit among practitioners, policymakers, and researchers, to ensure that the right questions are being asked, and that answers are getting to the right people in actionable and comprehensible formats.

CGAP's focus on impact will aim to support the industry in answering several critical questions:

- Where are the important evidence gaps in understanding the role of financial services in supporting the SDGs?
- What constitutes quality financial services that meet the needs of poor customers (i.e., moving the conversation away from access and toward suitability, fair treatment, and customer value)? What is the impact of quality financial services on the lives of poor customers?
- What pathways lead to improved livelihood outcomes for poor people and what is the role of financial services in improving these outcomes?
- What pathways lead to improved resilience for poor people and what is the role of financial services in supporting resilience?

CGAP will engage with a network of leading researchers and will seek to broker an industry learning agenda so that CGAP's own work, the work of its members, and other industry stakeholders is contributing to addressing knowledge gaps, while optimizing the knowledge already developed in the course of their development projects and investments.

6.3 Engaging with and Supporting CGAP Members

As of December 2016, CGAP members have committed over US$18 billion to financial inclusion in 2,265 active projects in 120 countries around the world.[2] They partner with and support a wide range of market actors, including providers and policymakers. Therefore, their global influence in financial services markets is critical to achieving the collective goals of enabling poor people to capture opportunities and build resilience.

The breadth and diversity of expertise and approaches across CGAP members help advance financial inclusion. CGAP facilitates the flow of information and learning among its members and helps translate insights from members and CGAP's research into funder strategies and operations.

Many funders have begun to reorganize their work in relation to the SDGs and to articulate ways in which they can better leverage the private sector. As many face competing pressures both in terms of capacity and the funding to deliver on the SDGs, there is an increasing risk of loss of focus and visibility of financial inclusion and dilution of the deep technical expertise required to build inclusive financial systems. On the other hand, this represents an opportunity to harness financial inclusion as an enabler of other development goals and work across different sectors in development cooperation towards joint outcomes.

Understanding the new players and their shifting roles in an increasingly complex landscape is challenging for donors and investors alike. For many donors, pressures on operational budgets have meant trying to do more with less. This means that they will need to identify ways of working that allow them to access deep, technical expertise, while influencing generalists or specialists in other sectors. Public investors are playing an ever more important role given the strong focus on private sector development and the push for mobilizing private capital, but using resources in a catalytic role that fosters the development of local capital market remains challenging.

CGAP's support to and influence on the funder community needs to reflect these trends. Using a market systems approach and partnering with market facilitators is one important way in which funders can improve their ability to adapt to the changing landscape. Building on CGAP's foundational work for funders under CGAP V, CGAP will seek to align funders' incentives and strengthen their capacity to contribute to the CGAP VI collective impact. This will entail:

- Ensuring that there is political support for financial inclusion despite competing priorities by creating knowledge products that articulate the opportunities for financial services to enable the SDGs. This helps funder staff to advocate for financial inclusion with their senior management and in their political constituencies.
- Support funders' strategy development by reviewing strategies, facilitating strategy development, reviewing strategic evaluations, engaging and guiding financial inclusion programs that span across different sectors.

[2] Data from CGAP Funder Survey.

- Extracting learnings, emerging practices and early evidence on what works from CGAP and its members' and partners' projects into more practical and operational guidance tailored for funders.
- Articulating the role of each funder segment in achieving the outcomes through research and convening on funding instruments/mechanisms or other topics to produce operational guidance and support adaptation. For example, CGAP will support DFIs and other impact investors to reflect the fundamental shifts in the delivery of financial services and adapt their risk models accordingly.
- Synthesizing lessons on market facilitators and exploring new implementation models to facilitate market systems to strengthen funders' capacity and set the right incentives.
- Monitoring and analyzing development trends that influence funders' strategies and priorities including trends on funding for financial inclusion.

6.4 Scaling Influence with Providers and Policymakers

As a global think tank, CGAP relies on the work of other actors who can influence policymakers and providers to embed relevant learning in their engagement with these actors. The most effective way to reach these audiences is to work with organizations that already have legitimacy and influence with policymakers and providers. With policymakers, this includes global standard-setting bodies, institutes that train regulators and supervisors, and peer learning associations for regulators and supervisors. They also include key bilateral and multilateral institutions that provide advisory support to policymakers, regulators and supervisors, including many of CGAP's members. For providers, CGAP focuses on industry associations, industry events and platforms, and training opportunities where provider staff already participate for improving their learning. CGAP uses many tools to influence providers and policymakers including:

- **Investing in capacity building at scale**. As the numbers of providers serving poor people has increased and the kinds of actors working along the financial services value chain has diversified significantly, identifying capacity building models that are viable and have low-barriers to usage for a variety of FSPs is an important mechanism to extend CGAP's learning with providers beyond those with whom it partners directly. Under CGAP V, CGAP developed an e-learning platform, The Gateway Academy, as one mechanism to address the business model constraints linked to capacity building services. The platform offers a means to crowd source training materials from a variety of qualified, individual training and consultancy providers, such as Helix and Digital Frontiers Institute among others, and to make them available to users globally in a cost-effective manner. The Gateway Academy is working with market actors who are beginning to utilize online learning and will play a convening and coordinating role for online learning in the sector. Under CGAP VI, addressing the long-term business model and sustainability of the Gateway Academy will be a priority as an important mechanism to expand CGAP's leverage.

- **Supporting industry training platforms**. Recognizing that other industry actors have an important role to play in directly providing training and capacity building services, CGAP also embeds its own learning through existing platforms that serve different user segments including Boulder Institute, Toronto Centre, Tufts University Regulator Program, among others. Annually CGAP offers scholarships to its members to participate in the Boulder Institute programs in Italy and Latin America. It also directly sponsors several CGAP staff who participate as instructors. With the Toronto Centre, CGAP co-designs curriculum and works with the Toronto Centre to pilot test the materials which are then offered as part of Toronto Centre's core curriculum with regulators and supervisors. CGAP also offers support to Tufts University's Regulator Program by sitting on the advisory committee, disseminating information on the program through its engagement with regulators, and staff participation as speakers at the training annually.

- **Participating on steering committees and boards.** CGAP staff participate as advisory committee members or as board members on several important industry platforms such as MIX, Smart Campaign, Financial Sector Deepening Africa (FSDA), Global Partnership for Financial Inclusion (GPFI) Access to Insurance Initiative (a2ii) and the Partnership for Economic Inclusion (PEI)[3]. Often CGAP's role is to support the early stage formation of these platforms followed by a responsible exit strategy once the platforms have robust participation from other stakeholders. Because of CGAP's limited staff size and operational model, CGAP staff are unable to participate in all industry platforms and the decision to participate is based on staff capacity and workplan priorities as adopted by CGAP members.
- **Supporting other industry events**. CGAP regularly participates in designing, co-facilitating, and participating in important industry events such as the SEEP Network's gatherings, GSMA events, AFI events, World Bank annual meetings, among others. CGAP management carefully manages engagement at industry events balancing staff time, costs, and CGAP's influence model.

Box 11. Engaging with New Actors

One of the issues raised in CGAP's latest Mid-Term Evaluation relates to membership, which was not adapting to reflect the new set of actors who are driving development in financial inclusion. To address this issue of relevance of CGAP's membership, member prospecting is ongoing to ensure CGAP's membership base is diverse and reflective of the strategic direction. Prospecting also serves to raise awareness about CGAP in the industry and to enhance CGAP's internal capabilities by bringing new knowledge and expertise into the CGAP community. This can mean targeting prospective members who can complement CGAP's work even if they have not explicitly focused on financial inclusion in the past. At the 2017 CGAP Annual Meeting in Myanmar, CG Members came together for a session to discuss the future of CGAP's engagement with inclusive businesses (IBs) and other private sector actors. During this session, it was decided that CGAP should begin to explore defined partnerships, including limited funding but not full membership, with selected complementary IBs.

[3] This is the name of the new initiative housed at the World Bank's Jobs Group of the Social Protection and Jobs Global Practice to scale the Graduation model.

7. Operationalizing the Strategy

7.1 Selecting Projects and Making Trade-offs

CGAP VI does not propose a set of research topics that will remain fixed for a full five-year cycle. It instead proposes a broad set of strategic directions that CGAP as a community of donors believes will have greatest impact in advancing financial inclusion over the next five years. But within these broad strategic areas, choices will have to be made on where to place limited financial and human resources, and how to decide what topics to work on, for how long and to what end. Given an increasingly crowded field of organizations working on financial inclusion, CGAP must play to its comparative advantages and elect to work in areas where it adds unique value, grounded in helping CGAP's partners make change happen on the ground. There is a growing and rapidly evolving set of topics, particularly related to technology, that could be of relevance for financial inclusion. As an operational matter, it is therefore imperative that CGAP carefully consider its topics, focusing limited resources on the work that will add most value to the objectives as articulated in the Theory of Change. Other areas may simply merit a watching brief or be better left to others.

To this end, CGAP will operate on the basis of a rolling set of clearly articulated projects. Projects will be substantial pieces of work that fit within the Theory of Change, with specific objectives that contribute to achieving the market-level or influence-level outcomes described above. Projects will have activities and outputs that support delivery of the stated project outcome and will require a description of the intended audience for the work, the proposed influence model, potential partnerships, and potential exit and scaling strategies. Projects will not be rigid – events in the real world change and CGAP needs to change with it – and by definition CGAP's work is meant to be experimental, so will require course adjustments occasionally. CGAP will build projects for flexibility, but will also build them in a system that records why course corrections are being made. Projects may require a year of work, three years of work or five years of work, so they will not be locked into a five-year strategy cycle, but will rather reflect the amount of time needed to reach the intended outcome of the work. Projects will be added and subtracted throughout the CGAP VI cycle, and will be used as the basis for accountability and reporting to members on CGAP's work.

The criteria to help CGAP make trade-offs are as follows:

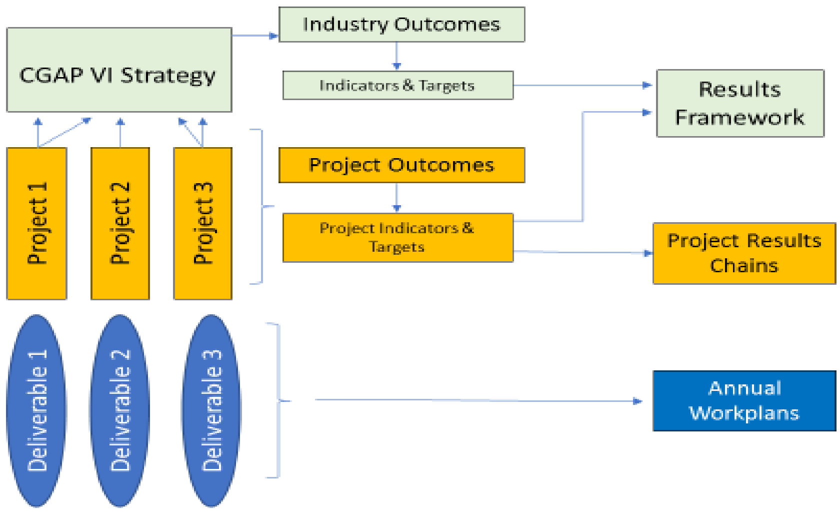
1. Does the topic show significant promise for improving access and usage of responsibly delivered financial services for the poor in developing countries?
2. Does CGAP have a comparative advantage on this topic? Or are others better placed to work on it? How can CGAP most effectively make a contribution – in a leading or supporting role?
3. Is there a clear way for CGAP to create influence towards a clearly articulated objective?
4. Is the described outcome achievable and is the influence model plausible?
5. What partners can help achieve the goals? If successful in reaching the outcomes, what is the strategy for scaling the work through others?

In support of this more dynamic way of managing CGAP's work, the Operational Team is investing in a Management Information System (MIS) that will help CGAP to more clearly define project objectives and outcomes, allocate resources and track changes to projects as they evolve over time. The MIS will give CGAP a framework for organizing its work, improve budget and resource allocation information, provide one place to store evidence for CGAP's work and influence, and provide a clear trail on how the thinking has evolved. It will also form the core of CGAP's reporting systems to members and improve its ability to provide relevant reports to members. It will be a project management system, but also a knowledge management system with an embedded Client Relationship Management module, so that CGAP can be better organized around key relationships, from members to project partners. The system is being built to address issues highlighted in CGAP's Mid-Term Evaluation, and is being developed with ample time for testing and roll-out with the launch of CGAP VI.

7.2 Results Measurement

As noted earlier, CGAP's Theory of Change is an anchor for CGAP's work and the CGAP VI results measurement process directly emanates from the Theory of Change. Figure 3 provides an overview of the overall results architecture for the CGAP VI strategy. As CGAP identifies projects to help achieve the outcomes defined in the Theory of Change, projects develop results chains which outline the project-level outcomes and indicators to track progress toward these outcomes. The aggregation of the outcomes and indicators across the projects come together to form CGAP's overall Results Framework. The annual aggregation of the deliverables and activities across the projects represents CGAP's annual workplan.

Figure 3: Results Architecture graphic



Project Results Chains (RCs). Project Results Chains represent the logic inherent in each individual project. The Project Results Chains will articulate a Project Outcome with Partners and Project Outcome with Non-partners as well as clear deliverables for achieving the various outcomes. The Results Chains also identify the assumptions on which the results logic rests. Unlike initiatives under CGAP V, projects will not be locked into five-year cycles but will have a shorter timeframe, two or three years on average. As projects are created or extended during the CGAP VI cycle, Results Chains and will be developed or updated and the corresponding indicators identified will be integrated into the Results Framework. As projects end, CGAP's Results Framework will reflect changes in the number and type of indicators.

The Results Framework aggregates the outcomes and indicators across the projects. There are three different types of outcomes for each project: The Industry Outcomes; the Project Outcomes with Partners; and the Project Outcomes with Non-Partners. The CGAP VI Results Framework only includes these three different types of outcomes and does not include outputs, which instead make up the annual workplan. Table 1 outlines the definitions of the different types of outcomes.

Table 1: Outcome Type Definitions

Type of Outcome	Definition
Industry Outcome	Higher level long-term Outcomes in the Theory of Change to which CGAP contributes. CGAP does not claim direct causality. The Theory of Change Industry Outcomes in the results framework highlight Outcomes CGAP will monitor to track market development in important areas of work.
Project Outcome with non-partners	Measurable change primarily with non-partner institutions – capturing crowding-in/replication/scaling of behavioral change beyond CGAP's direct partners. This will be measured at the end of the project lifetime and beyond in cases where it makes sense to do so.
Project Outcome with partners	Measurable change in awareness, knowledge, attitudes, and/or behavior in direct partner institutions (e.g., FSPs, regulators, funders) during the lifetime of the project.

7.3. Adapting Communications

Audiences around the world are rapidly changing the ways they access and digest knowledge. They are visually sophisticated, absorbing information through graphics and in shorter bites - by some accounts reading one third less online than in print documents. While research papers remain vital to CGAP's reputation as a leading resource and knowledge hub at the forefront of financial inclusion, how our knowledge is presented must continue to evolve. CGAP must become more visually compelling for a digital world where audiences spend less time reading text-based documents and face more distractions. The time-to- market for ideas and information also has shortened dramatically, thanks to web-based technologies, while social media has changed the influence vectors and disrupted distribution channels. Readers rely less on brand-name sites for knowledge and increasingly upon recommendations from respected names in their professional networks who share digitally, via Twitter, LinkedIn, Facebook or plain old email. Data analytics show that most people today access CGAP products through Google searches, not directly from CGAP's website or promotional materials. A Media Barn survey in 2015 found that 94 percent of 392 respondents who used CGAP.org regularly shared CGAP's output mostly by email, and 50 percent used social media every day to access information about financial inclusion.

To be truly effective in the digital age, CGAP over the next five years will make knowledge sharing and communications more timely, dynamic and visually interesting. Communications will use a multivariant approach tailoring CGAP's outputs to the different audiences CGAP seeks to influence at each stage of the work.

To meet these challenges, CGAP Communications will pursue a four-pronged strategy:

1. **Staggered Approach:** CGAP will adopt a dynamic and iterative approach toward knowledge sharing, actively using communications as an instrument of strategy. Communications will be built into CGAP's workplans from the beginning, flowing through each stage, steadily building learning and impact. As CGAP identifies challenges and opportunities in the financial inclusion landscape where CGAP can make a difference, fast-to-market tools such as blogs, speeches and data visualizations will be used to signal CGAP thinking early and help shape the debate. As work progresses, foundational pieces such as Working Papers will be produced as knowledge building blocks. New outputs tailored to the needs of different targeted audiences will be added. These will build toward flagship outputs that pull together and analyze accumulated evidence from CGAP's research. At each point in the life cycle of the project, the knowledge outputs will be adapted to the audience.

Figure 4: Staggered Communications Approach

2. **Style and Formats:** To better match the needs of the digital world, knowledge outputs will be more dynamic and action oriented, both in visual and written style. CGAP is reducing the quantity of outputs and streamlining formats to bring greater focus and impact. Audience research will be conducted and incorporated into the decision-making on what types of knowledge outputs to produce to reach specific markets.

3. **Redesign:** CGAP is upgrading its corporate website CGAP.org, reorganizing the architecture and revitalizing the design to make it more accessible. Bodies of work will be better packaged in multimedia formats. A flexible site should diminish the pressure to build microsites to showcase the rich content produced by the technical teams. The new site will be launched at the beginning of CGAP VI. As part of the upgrade, CGAP also will refresh the design of its publications, and the Microfinance Gateway, CGAP's independent knowledge sharing hub, is rebranding to reflect its role today as a resource for the financial inclusion industry more broadly.

4. **Impact:** By integrating knowledge sharing and communications deeply into each stage of the project and by working collaboratively, CGAP will be better positioned to track its influence and adapt its communications to achieve the greatest impact. By strengthening the use of data analytics, CGAP will deepen its marketing efforts to achieve wider reach.

7.4. Responsibly Managing Resources

The Operational Team has mapped out three budget scenarios for CGAP VI. The base case scenario at $127 million reflects a level of member support consistent with the resources mobilized under CGAP V, and represents the Operational Team's best estimate for the next five-year cycle based on contributions and discussions with members to date.

The low case scenario assumes a 9 percent decrease in total funding and projects declining resources over the life of CGAP VI, ending with a $115 million total for the full cycle. The optimistic scenario assumes a 10 percent increase in donor commitments, reaching a total budget of $140 million over five years. Under all scenarios, the Operational Team will pull the budget for FY19 back to $24 million (from a peak of $31 million in FY18), projecting a relatively stable trend in the base case scenario, a rising trend in the high case and a declining trend in the low case.

Each of the budget scenarios will have a direct impact on CGAP's investments in staff resources and the number of pilots covered under each of the thematic areas. As staff costs are the largest component of CGAP's budget, and the most difficult to change, the current operating assumption is that total staff numbers will remain below 55. Staff numbers are currently well below that number and additional staff will only be hired as and when there is a clear idea of funding availability.

The scenarios below are budget only and do not represent CGAP's cashflow position. In line with prudent financial management practices and World Bank requirements, CGAP maintains a 6-month reserve of operational funding to accommodate a potential wind-down decision, should funding not materialize at the expected levels.

Table 2: Budget Scenarios for CGAP VI

CGAP VI - Budget Scenarios

US$M	FY19	FY20	FY21	FY22	FY23	Total
Scenario 1 - Base case	23.8	25.0	26.5	26.1	25.6	**127.0**
Scenario 2 - High	23.8	27.5	29.8	29.7	29.2	**140.0**
Scenario 3 - Low	23.8	22.5	22.7	23.0	23.0	**115.0**

CGAP VI - Scenario 1 - Base case

US$M	FY19	FY20	FY21	FY22	FY23	Total
Salaries and Benefits	13.9	13.5	13.5	13.1	12.5	66.5
Other Fixed Costs	0.5	0.3	0.4	0.4	0.3	1.9
Consultant Fees	3.9	3.5	3.5	3.5	3.0	17.4
Consulting Companies	3.1	5.0	6.0	6.0	7.0	27.1
Travel Expenses	2.2	2.4	2.8	2.8	2.5	12.7
Other Operating Expenses	0.2	0.3	0.3	0.3	0.3	1.4
Total Expenses	**23.8**	**25.0**	**26.5**	**26.1**	**25.6**	**127.0**

CGAP VI - Scenario 2 - High

US$M	FY19	FY20	FY21	FY22	FY23	Total
Salaries and Benefits	13.9	14.5	15.0	14.5	13.5	71.4
Other Fixed Costs	0.5	0.4	0.4	0.4	0.5	2.2
Consultant Fees	3.9	4.5	5.0	4.5	4.2	22.1
Consulting Companies	3.1	5.0	6.0	7.0	7.8	28.9
Travel Expenses	2.2	2.8	2.9	2.9	2.8	13.6
Other Operating Expenses	0.2	0.3	0.5	0.4	0.4	1.8
Total Expenses	**23.8**	**27.5**	**29.8**	**29.7**	**29.2**	**140.0**

CGAP VI - Scenario 3 - Low

US$M	FY19	FY20	FY21	FY22	FY23	Total
Salaries and Benefits	13.9	12.5	12.0	12.0	12.0	62.4
Other Fixed Costs	0.5	0.4	0.3	0.3	0.3	1.8
Consultant Fees	3.9	3.5	3.5	3.0	3.0	16.9
Consulting Companies	3.1	3.5	4.2	5.0	5.5	21.3
Travel Expenses	2.2	2.4	2.5	2.5	2.0	11.6
Other Operating Expenses	0.2	0.2	0.2	0.2	0.2	1.0
Total Expenses	**23.8**	**22.5**	**22.7**	**23.0**	**23.0**	**115.0**

7.5. Identifying and Managing risks

CGAP recognizes that there are a number of risks to the effective implementation of CGAP's five-year strategy. They include:

Alignment with global development agenda. Prominent amongst these risks is the positioning of financial inclusion within the wider global development agenda. Financial inclusion is recognized for the vital role it plays as an enabler of many SDGs, and yet it does not enjoy the status of a stand-alone SDG objective. As a result, governments facing competing pressures both in terms of capacity and finances to deliver on SDG targets may fold financial inclusion into other sectors, such as SME finance, agricultural finance, energy or food security. Already some governments are moving in this direction. Subsuming financial inclusion into other development agendas risks creating a loss of focus and visibility. If it were no longer seen as a means for poor people to capture opportunities and build resilience, donors might lose interest and exclude specific financial inclusion-related objectives from their funding arrangements. If governments combine programs, it risks dissipating focus on financial inclusion, diluting the deep technical expertise required to build inclusive financial systems and endangering the progress made in recent years toward delivering technically sound and responsible outcomes for poor people.

Another development agenda risk relates to financial inclusion that is heavily driven by numbers. The Global Findex measures the significant progress made toward reducing the number of unbanked adults around the world. The GSMA measures the number of people connected to mobile money accounts. While quantifying progress is important and useful, it focuses global attention on issues that do not capture benefits for poor people, and it creates distorted incentives for those working on financial inclusion. Firstly, measuring access alone without considering the value to poor people of the financial services offered is short sighted. Without value, uptake and usage is low. Already a high percentage of banking and mobile money accounts sit unused, illustrating the gap between access, value and usage.

Secondly, too much focus on measurement neglects areas where results are far harder to track. For example, creating enabling environments requires engagement with policymakers, business leaders and regulatory officials over time frames for which direct results and attribution can be difficult to measure. However, the potential benefits from building the infrastructure necessary for financial ecosystems to work effectively and at scale are huge.

These development agenda risks require CGAP to offer meaningful ways to respond to members' political pressures and to provide concrete evidence and solutions for how financial inclusion can enable donors to achieve their broader development goals. CGAP has been shifting the focus toward customer value to raise the conversation beyond financial access and counter the narrow focus on simply opening accounts.

Private sector threats. Private sector and market actors can block progress toward financial inclusion. In the early stages of market development, before government policies or business norms are firmly established, companies may seek to dominate industries to maximize profits. Monopolistic tendencies that crush competition and innovation hamper the growth of inclusive financial systems. The banking industry in Ghana, for instance, at first resisted opening up the market for mobile network operators to expand their financial service offerings. After regulations were changed, digital financial service accounts roughly doubled within one year.

A different threat arises from the private sector withdrawing from the low-income arena, seeing limited profit potential in a market segment they perceive as too difficult to serve, high risk and unsuited to their business models. If financial inclusion were left primarily a responsibility of the public sector, the pace of innovation likely would slow, it would compete for attention with other government programs and opportunities for poor people would diminish.

By partnering with various types of private sector players and by integrating work on business models in the CGAP VI strategy, CGAP aims to demonstrate value of serving poor people to the private sector. CGAP's focus on crowding in investors in emerging business models is also intended to support the plurality of players and models to counter dominance of any one actor. Furthermore, CGAP's proposed work on infrastructure and policy embeds a clear focus on openness and fair access to payment platforms by different actors, reducing the ability of capture by any one player.

Market crisis. Finally, a widespread market crisis that undermines customer confidence in financial services presents a systemic risk. This could be driven by a collapse in asset prices, regionally or globally, which threatens the stability of the financial system, derailing growth and hurting incomes and economic opportunities. Or systemic risk could be driven by a massive data breach, like Equifax has seen in the United States, exposing customers to identity theft. In the worst-case scenario, it could lead to the draining of accounts causing huge financial losses both for the account holders and financial institutions, and a collapse in confidence. Or a crisis could be driven by over-indebtedness from digital credit products that are poorly understood by customers and poorly executed by providers, as seen in parts of India's microfinance industry.

The scale of these threats underscores the importance of CGAP's work on consumer protection and embedding financial inclusion principles into the work of financial regulators and supervisors.

Operating risks. Beyond the external risks noted above, there are numerous operational risks linked to executing on this broad agenda. First, CGAP's ability to raise funding to allow it to have a meaningful contribution in all four programmatic priority areas. In light of this risk, CGAP has taken a conservative approach to programming resources in the first two years of the strategy, programming only the resources that it has already secured. Budget allocations for subsequent years will reflect funding secured during the CGAP VI cycle. Second, as a membership organization with over 30 members, CGAP's agenda is a collective exercise in both technical and political consensus among very different types of organizations. While significant effort has been made to ensure members' interests are reflected in the strategy, there is a risk that some members will not see direct alignment with their own agendas. CGAP mitigates this risk by building an operational model that partners directly with members whenever and wherever feasible, engaging with members through governance and programmatic structures such as working groups, and relying on frequent feedback loops through relationship managers and other opportunities for regular communication with members. Third, CGAP's home inside the World Bank Group (WBG) adds an additional layer of risk associated with the ongoing changes in the direction, funding and operational mechanisms of the WBG that both guide and limit CGAP's operations. For example, periodic hiring freezes have historically limited CGAP's ability to staff new areas of work. To mitigate host agency risks, CGAP engages heavily with WBG colleagues to ensure complementarity where feasible and the CGAP CEO participates regularly in WBG management meetings and decision-making. CGAP will expand its efforts to improve knowledge sharing and strategic complementarity with the WBG as a priority in the first year of the CGAP VI strategy.

ANNEX A. CGAP's Role and Complementary to Other Stakeholders

CGAP's Role and Complementarity to Other Stakeholders

Financial Service Providers (FSPs)

Retailers, agents and aggregators, brokers, over the top players, MFIs, cooperatives, banks, card companies, etc.

- CGAP has deep expertise on financial services for poor people and is able to encourage and support FSPs to extend their reach to serve poor people; or to improve their business models to enable reach to poor people.
- CGAP's role is to influence these actors through direct partnership and to demonstrate lessons that can be shared more widely.

Market Infrastructure (Support Organizations)

Associations of MFIs, banks, MNOs, and NGOs; consulting firms; training providers; information and data platforms; advocacy platforms; researchers and academics.

- CGAP works across the private and public sectors and at both global and country levels.
- CGAP leverages these market infrastructure actors as partners to undertake practical research, disseminate, replicate and scale knowledge.
- CGAP collaborates extensively with these actors to co-create knowledge and to advocate for financial inclusion.

Policymakers

Local & global financial regulators and supervisors; telecom regulators; consumer protection agencies; competition authorities; peer learning platforms for regulators.

- CGAP focuses on frontier learning topics that have not yet become mainstream across policymaking bodies.
- CGAP's role is to influence these actors through research and engagement.
- CGAP partners with many of these actors to research, test, learn and disseminate knowledge.

Market Facilitators

Global/regional knowledge and capacity facilitators; national and regional market facilitators; national coordination secretariats; funder programs with facilitation mandate.

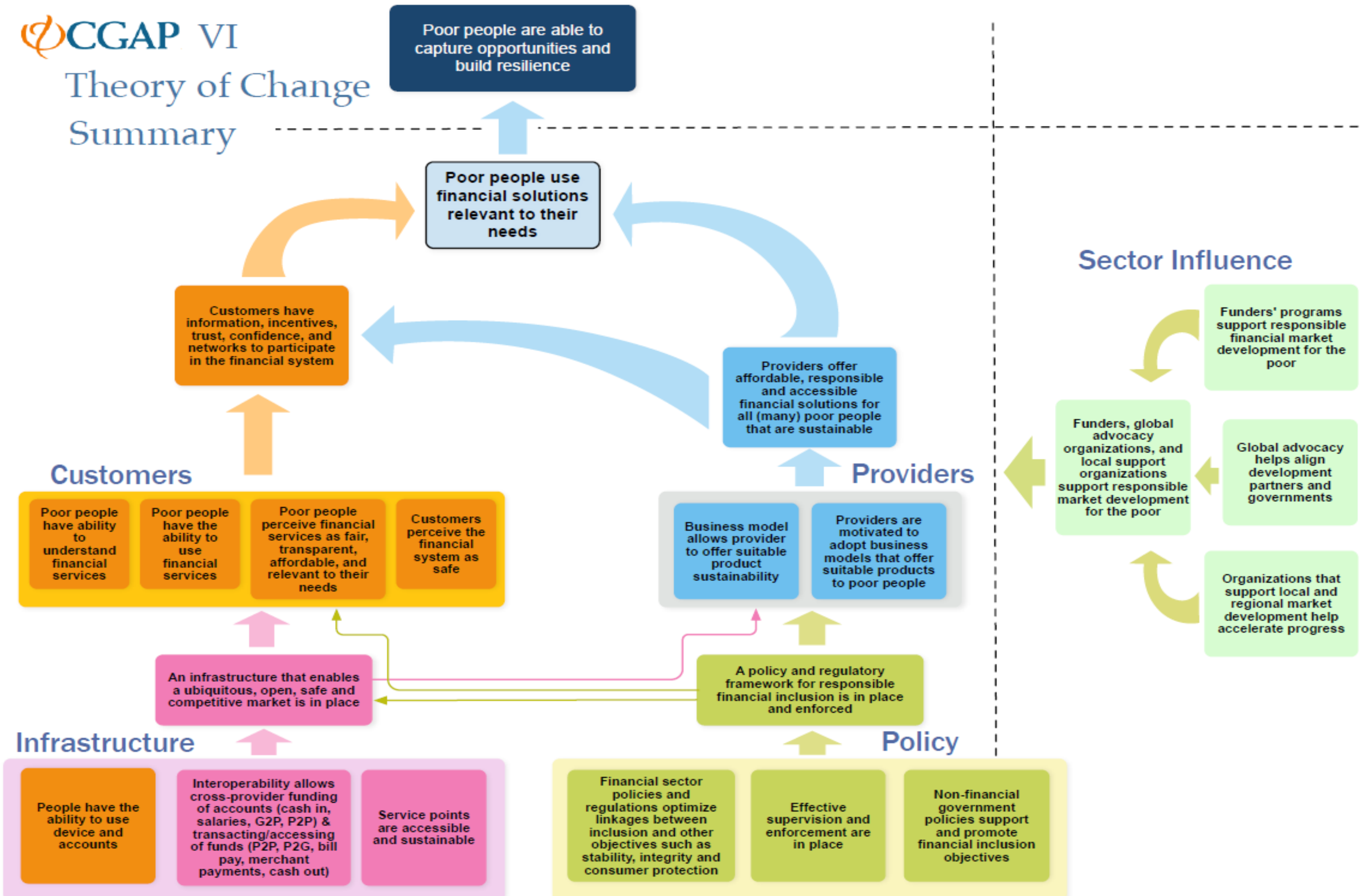
- At the global level, there are few similar entities that work across the public and private sectors and at the global and country levels.
- CGAP is the only global entity in financial inclusion with a donor membership base.
- CGAP collaborates extensively with national coordination platforms, funder programs with facilitation mandate or market facilitators. CGAP complements their work by offering a global perspective.

Donors and Investors

Donors and public investors; international and national NGOs; other actors with a development mandate.

- As a coordination platform for donors and investors, CGAP complements the work of donors and investors who invest resources directly into market actors and facilitators.
- CGAP provides global knowledge that can be operationalized by donors and investors into their investments.
- CGAP offers a neutral platform for knowledge and does not make direct investments itself into market entities.

ANNEX B. High-level Theory of Change



ANNEX C: Summary of CGAP VI Priorities

1. Creating Customer value

Access → Value → Usage

Generate Insights on Segments	Increasing customer value through trust and fairness
• Building on work in CGAP V, focus on 4 key client groups – women, youth, refugees, and vulnerable rural households – and their intersections. • Conduct literature reviews to extract and share insights on segments. • Identify opportunities for financial services to create value in the lives of selected segments & work across CGAP to embed these insights in CGAP programs	• Research on policies and practices of regulators that have introduced or are experimenting with new approaches to consumer protection. • Develop a customer-outcomes framework that can be easily applied by regulators/supervisors and influence businesses, and that can be played out in different contexts and for different segments.

2. Emerging Business Models

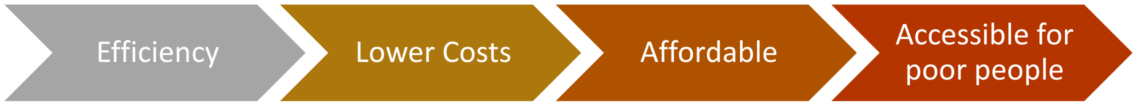
Open & Low-Cost Payments → Diverse & Suitable Financial Services → Innovative Partnerships & Hybrid Business Models

Open & Low-Cost Payments	Diverse & suitable Financial Services	Innovative Partnerships & Hybrid Business Models
• **Reduce distribution cost:** Explore synergies with large scale distribution businesses to reduce cost of access (CICO) • **Adopt "Open"**: Demonstrate how "open" platforms lead to diversification of use cases and increased account usage • **Leverage Big Techs**: Explore role that large-scale OTT platforms can play aggregating access to payments	• **Data for Suitability:** Demonstrate how data analytics enables adequate tailoring of solutions to needs of poor customers • **Fintechs & Digital banks**: Explore emerging models for disruptive full digital banks • **OTT players**: Explore how OTT platforms integrate DFS and drive new business models	• **Bundling:** Explore how innovative configurations of value chains that embed financial services improve access to things low-income people care about • **Explore Asset Financing:** Demonstrate viability and scalability of asset financing models that leverage DFS, the digital economy and value chain configurations to help customers accumulate assets

Financing for Scale

- **Capital:** Explore investment risk/return of emerging business models for different investors
- **Blended Finance:** Characterize opportunities and mechanisms for public/private financing

3. Enabling Infrastructure



Distribution	Connected Market Solutions	Open APIs
• Work on merchant payments • Landscaping work, visioning, and a roadmap on improving distribution networks that can guide CGAP's thinking and work going forward as well as be useful to businesses and funders to shape their work.	• Business (scheme) rules for cross-border interoperability based on work in East Africa. • Knowledge product to synthesize what has been learned through the East Africa interoperability work. • Work to explore how market-level systems could be connected to enhance financial inclusion (e.g., along the lines of the India Stack).	• Provide technical support DFS providers as they open their APIs. For example, this will include business model aspects of opening APIs; how to engage 3rd parties; and risk management and technical considerations.

4. Next Generation Policy

Emerging Regulatory & Supervisory Challenges	International Standards	Data Protection and Privacy
• Scale up basic regulatory enablers • Create critical supervisory tools to enforce regulations and stay on top of market developments • Identify new emerging issues and identify solutions	• Galvanize wider support for financial inclusion systems at global level • Institutionalize a Forum to enable standard setters to exchange information	• Work with pilot countries to develop novel data protection policy frameworks. • Identify, test and spread good practices for providers • Support the development of cybersecurity centers in developing countries to address new risks