

A stylized illustration of three women walking from left to right. The woman on the left is wearing a yellow shirt and a light blue skirt, holding the hand of a smaller woman in the middle. The woman on the right is wearing a yellow shirt and a blue skirt. The background is a light blue gradient.

A RESEARCH AND LEARNING AGENDA FOR THE IMPACT OF FINANCIAL INCLUSION

Consultative Group to Assist the Poor

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EXECUTIVE SUMMARY

THE UNPRECEDENTED IMPACT OF THE COVID-19 PANDEMIC ON poor people's lives and the financial inclusion community's effort to help people cope and rebuild have highlighted a fundamental challenge we face as a community: our limited knowledge of how and when different types of financial services help specific groups of poor people build resilience and capture opportunities. We need to invest in efforts that address this knowledge gap and effectively help poor people safeguard against future shocks and improve their overall well-being.

With this in mind, CGAP took stock of the mixed—sometimes contradictory—impact evidence from a vast number of rigorous studies conducted around the world over the past year and consulted many stakeholders who lead the financial inclusion impact research agenda. We then developed an updated theory of change and presented a new impact narrative. In this paper, we build on the insights gained through this consultative process and propose a learning agenda for the future. We reveal that although various financial services such as savings, insurance, and payments can positively affect poor people's well-being, it is not as clear how this happens for different groups of poor people. By improving our understanding of how impact happens, we can better predict when financial inclusion policy can generate positive outcomes—and avoid negative ones. We also outline key research questions that are crucial to understanding and articulating how financial services impact poor people's lives.

This Focus Note is written for funders of impact research, policy makers, and, more broadly, the financial inclusion research community. It presents the following recommendations:

- The financial inclusion community should formulate learning questions through an **outcomes-based approach** rather than a product-based one to address current knowledge gaps. This will help us to better understand how contextual factors, such as social norms, macroeconomic stability, and government social programs, can shape the impact financial services have on poor people's well-being.
- **Innovation in research methodology is necessary** to answer the questions brought on by persistent knowledge gaps. While great progress has been made over the past 20 years with quantitative and experimental research methods that confidently measure impact, we still lack a holistic understanding of how impact happens. In this paper, we show how new research initiatives are taking on these challenging questions and illustrate how a research approach that factors in more complex processes is becoming more manageable.
- **The role of funders is crucial** to support the new research initiatives, improve research methods, and scale their efforts in a way that promotes a policy-relevant learning agenda among the financial inclusion research community.

SECTION 1

INTRODUCTION

IN RECENT YEARS, COLLABORATION BETWEEN GOVERNMENTS AND the financial industry has enabled millions of people who had been excluded from formal financial services to have financial accounts. While this is a step forward, low use and inactivity keeps account dormancy rates persistently high. This is especially true across Africa and India, which have some of the highest account ownership growth rates (Demirgüç-Kunt et al. 2018).

Rigorous impact studies have tended to focus on the impact financial services have had on indicators of monetary- and consumption-based measures of poverty reduction, and show mixed—and sometimes contradictory results. Furthermore, access and usage metrics used to evaluate progress in financial inclusion do not always correlate with improvements in the well-being of poor people.

In light of this, the financial inclusion community is renewing its efforts to understand the role financial services play in the lives of poor people and how financial services can improve their well-being.¹

We are asking the questions: Financial inclusion for what? What should we invest in? What are the promising welfare-enhancing solutions? Which ones should we experiment with? How do we achieve the nuance required to guide financial inclusion policy decisions that enable financial services to add value to poor people's lives?²

The learning agenda we are proposing is based on extensive consultation with donors, researchers, and practitioners who support financial inclusion.³ It identifies persistent knowledge gaps that need to be addressed if we are to understand the impact financial services have on the ability of poor people to improve their well-being. It highlights the hurdles that research methodology can pose in addressing knowledge gaps, and it points to new research initiatives that can improve our ability to answer our questions. We need

1 Throughout this paper we apply Amartya Sen's concept of well-being. Well-being refers to a person's own perceptions of what constitutes a good life when they have a choice to achieve it. Examples include time spent with loved ones, children's education levels, types of assets, and level of income. All references to "well-being" refer specifically to the well-being of poor people.

2 See El-Zoghbi (2019).

3 CGAP convened four regional workshops with donors, researchers, and practitioners to inform a new theory of change on the impact financial services can have on the lives of poor people and the formulation of a learning agenda to address related knowledge gaps.

to support these new initiatives to ensure they scale and have a chance at explaining how, when and for which groups of poor people can financial services help improve their well-being. The end goal is to generate relevant research that informs financial inclusion policies that are more effective in benefiting poor people.

Funders of impact research are the primary audience of this learning agenda. It aims to help funders identify the “right” questions to ask, learn about a broader range of appropriate new research methodologies, and identify the right stakeholders to partner with on impact evaluation research.

CGAP’s new theory of change

CGAP has taken stock of the evidence to date to reassess the thinking around the impact of financial inclusion. We first looked at the broader development literature to identify the well-being outcomes people value and how those living in poverty prioritize these outcomes. Next, we explored evidence on how financial services contribute to enabling valued life outcomes.⁴

The initiative led us to develop a new theory of change (ToC) for how financial services affect poor people’s well-being. It explores the various ways financial services enable well-being—based on evidence and logical hypotheses derived from broader development literature that is not yet backed by research.⁵ Contrasting the ToC with available evidence revealed several knowledge gaps that funders can address.

According to the framework, financial services can facilitate (or hinder) the pursuit of desired life outcomes through several impact pathways, depending on context. We define context as individual characteristics and capabilities, as well as socioeconomic, cultural, and environmental conditions at the community and country level that influence what can or cannot be achieved by using financial services. These meso and macro socioeconomic and cultural conditions influence the sustainability of life outcomes pursued yet are beyond the control of any individual.

The ToC can be used to hypothesize and then test various impact pathways for a good life beyond monetary measures of poverty reduction (see Figure 1).

The ToC answers the question: “How does the use of financial services contribute to an individual’s well-being?” It traces the pathways of change from product use to well-being.⁶

4 We scanned over 300 peer-reviewed impact studies from 2014 onwards to map the different impact estimates observed for various financial products. For details on our review methodology, see El-Zoghbi, Holle, and Soursourian (2019) and Persson and Hernandez (2019).

5 Based on the evidence, well-being can be achieved through two main outcomes: building resilience and capturing opportunities.

6 Note that the CGAP ToC focuses on what happens once poor people use adequate financial services. It is not meant to explain how the financial industry can enable the use of financial services (e.g., assess poor customer needs or design and distribute adequate financial services, which constitutes the bulk of the work conducted by organizations working to promote financial inclusion, including CGAP). Rather, the CGAP ToC focuses on identifying the ways financial services may change people’s lives once they use them. Therefore, our ToC focuses on the question: Financial inclusion for what?

FIGURE 1. The CGAP Theory of Change: How financial services can influence poor people’s well-being



We take “well-being” as the ultimate goal and define it as the ability to attain the aspects of life deemed to be a good living according to people’s own values. Well-being is therefore multidimensional because it includes monetary and financial outcomes, as well as outcomes related to health, relationships, social networks, education, housing, safety, and overall stability.

Based on evidence, the ToC identifies two high-level outcomes that enable the ultimate goal of improving people’s well-being facilitated by financial services:

- *Building resilience* refers to people’s ability to prepare for risks, cope with shocks, and recover afterwards. Consumption smoothing is one dimension of resilience. Others include people’s ability to generate the financial resources to cope and recover from shocks, and the human capital and physical capability that allows them to prepare against future shocks.
- *Capturing opportunities* refers to people’s ability to seize investment opportunities physical capabilities.

Resiliency and the ability to capture opportunities go hand in hand in a dynamic, reinforcing cycle. Evidence shows that resiliency encourages people to take on riskier investment opportunities than they normally would that may result in positive life changes. Captured

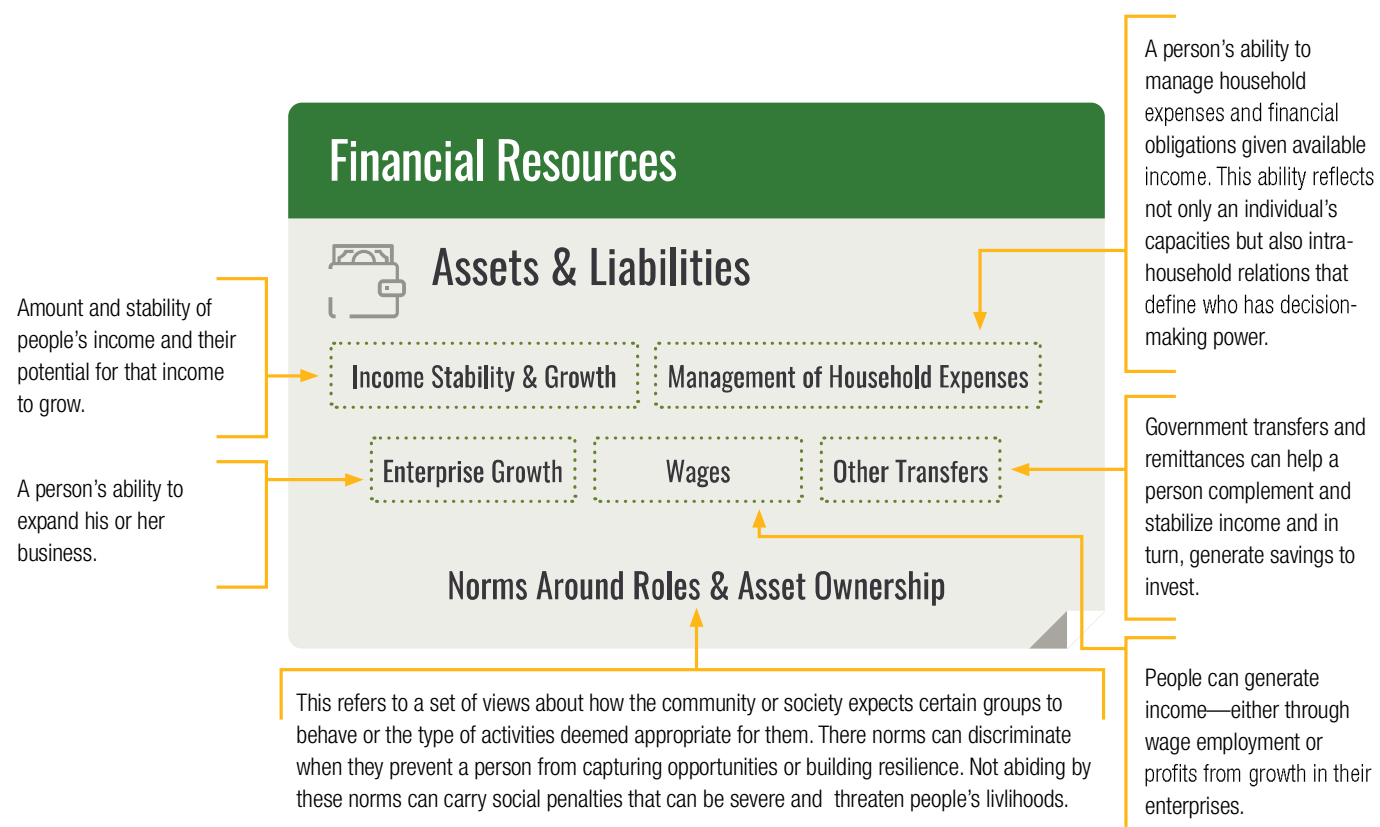
opportunities like business investments, education and training, and medical treatment enable a higher level of resiliency. People then set their sights on previously unreachable investment opportunities—and so forth, in a virtuous upward spiral where increasing resilience levels and better investment opportunities lead to greater well-being.

Conversely, when people suffer shocks strong enough to break resilience levels, well-being can plummet. Under these circumstances, certain financial services products may even be detrimental. For example, a person living in poverty suffers from the systemic shock of a major flood. With assets and income sources wiped out, they need to rebuild their livelihood. Emergency credit may be useful for coping with immediate effects of the shock. But it also may have the unintended consequence of degrading resilience over time if borrowers cannot rebuild livelihoods as loan repayments come due. Researchers can use the CGAP ToC to trace similar scenarios to hypothesize and test possible negative outcomes from using specific financial services.

Evidence suggests that people seek three main sets of *preconditions* or *intermediate outcomes* that explain their current levels of resilience and ability to capture opportunities. They are related to (i) financial resources, (ii) human capital, and (iii) physical capability. Evidence suggests that financial services can help people attain these preconditions/intermediate outcomes.

It follows that poor people seek to build financial resources by accumulating financial assets and managing liabilities through financial services. For example, financial services can help a household smooth and increase their income, manage expenses, invest in enterprise growth or better employment, and transfer money to cope with shocks or to invest. See Figure 2.

FIGURE 2. **Financial resources**



Poor people also seek to build human capital by investing in developing skills and knowledge. Financial services can be useful tools for this. Digital financial services have been shown to simplify the process of paying for education and training. Using financial services can improve people’s perceptions of their own capabilities, autonomy, and expectations for the future. Use also can enable socialization, which can help build social networks and access to information and knowledge. See Figure 3.

Similarly, poor people seek to improve their health and physical mobility. Evidence shows that digital financial services make it easier to pay for basic services; to build water, sanitation, and hygiene (WASH) infrastructure; to use health care services; and to build safer housing and other physical assets. Financial services also can enable access to better food and nutrition, transport services, and electricity. In these ways, financial services shape physical capability. See Figure 4.

FIGURE 3. **Human capital**

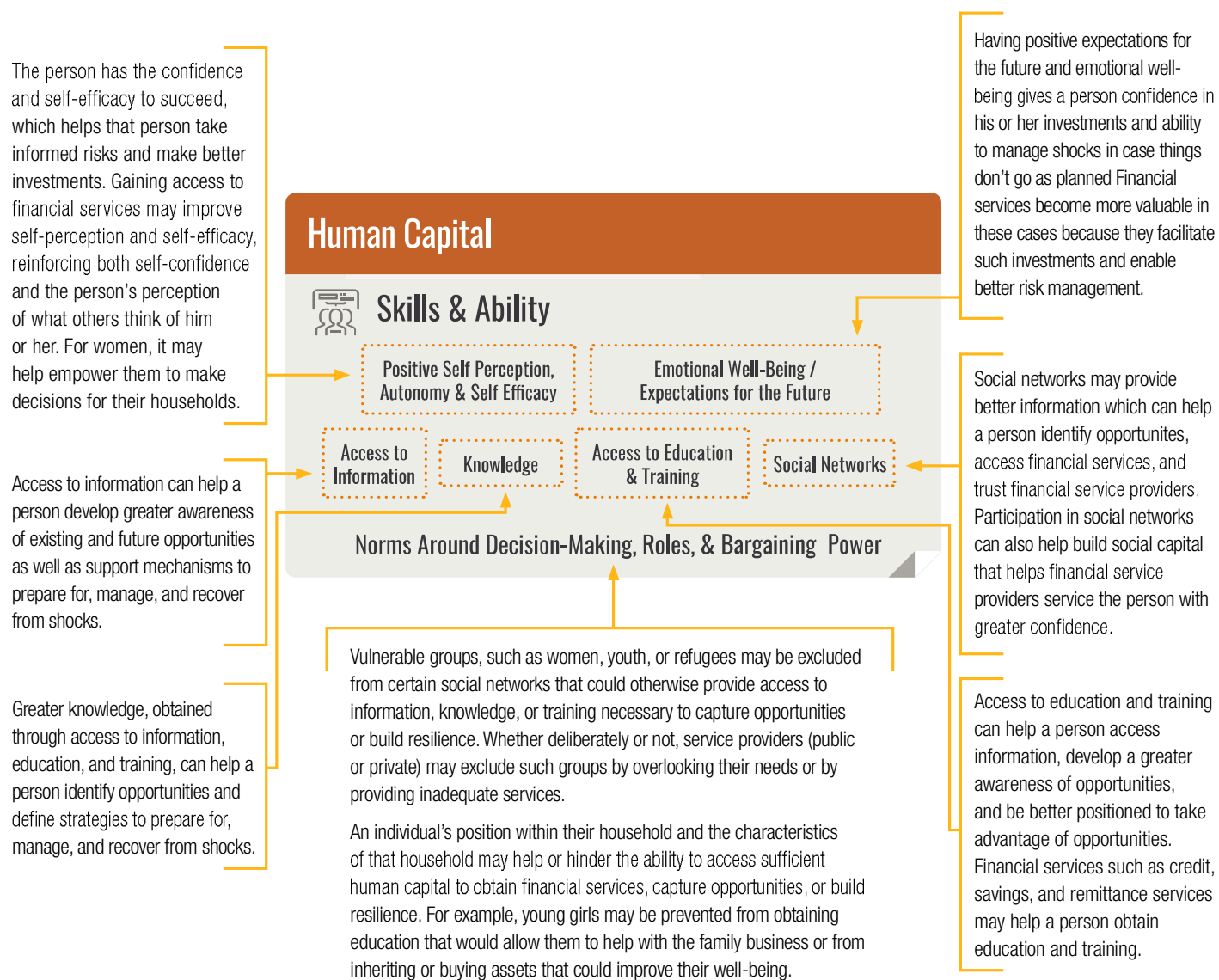
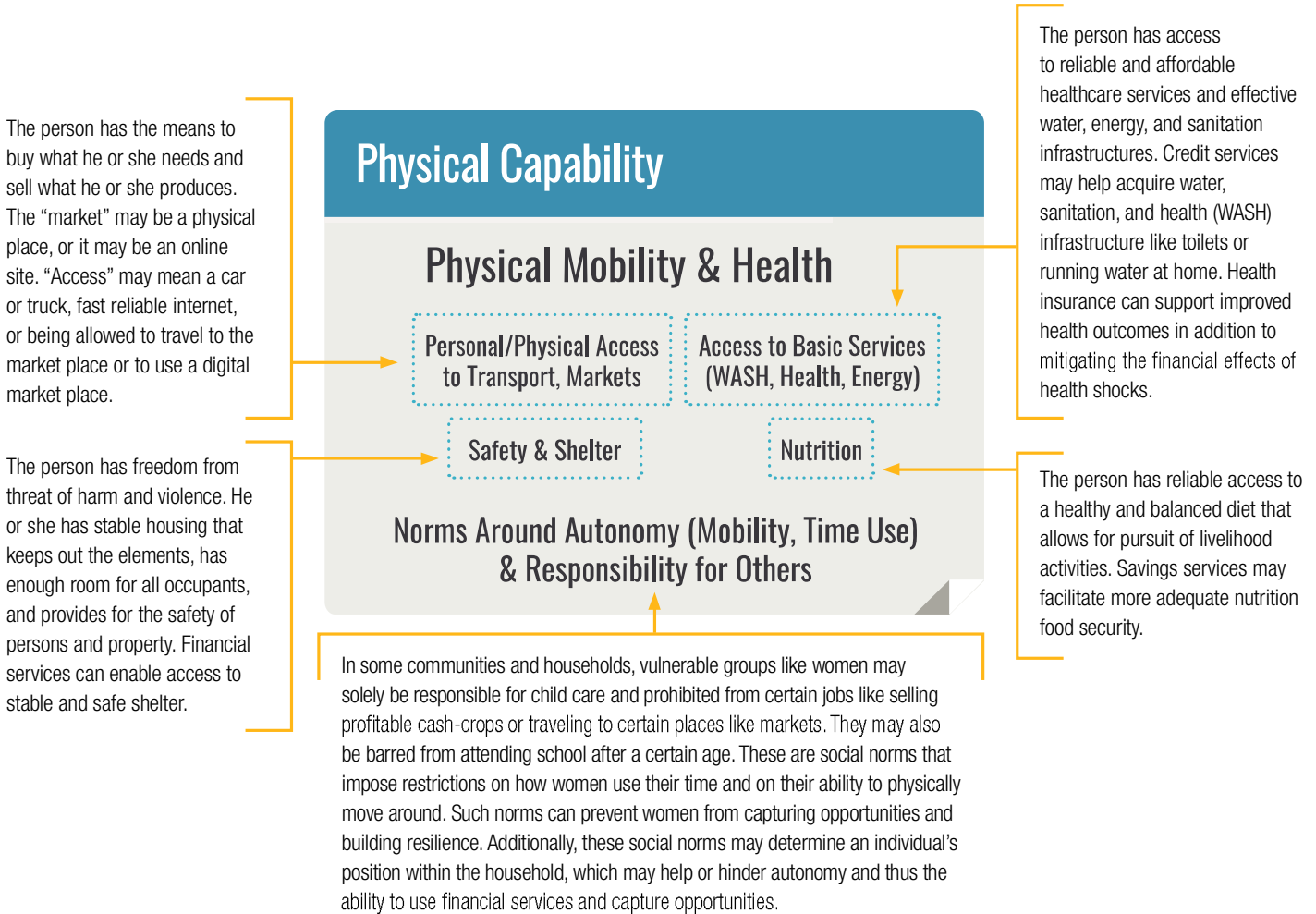


FIGURE 4. **Physical capability**



BOX 1. High-level and intermediate outcomes are mutually reinforcing

Financial resources, human capital, and physical capability can be both preconditions and intermediate outcomes—depending on where an individual is in the journey toward higher levels of resilience and better opportunity sets. Intermediate outcomes not only contribute to well-being, but represent the dimensions that define it. Therefore, these intermediate outcomes of building financial resources, human capital, and physical capabilities are as important as the high-level outcomes of building resilience and capturing opportunities.

STRONG LINKS BETWEEN THREE KEY FRAMEWORKS

During the consultation process to define the CGAP ToC, we carefully considered its links with the Financial Health framework and the Sustainable Development Goals (SDGs), as well as to other frameworks used by the financial inclusion community. The Financial Health Network created the framework and definition of financial health in 2015. The United

Nations Member States adopted the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals that same year.

Links with the Financial Health framework

The Financial Health framework has been successfully adopted by the financial industry in many markets. It encourages financial services providers to intentionally promote financial health among their customers.

The CGAP ToC and the Financial Health framework focus their scopes of analysis on how the use of financial services can lead to better financial outcomes in poor people’s lives, such as the ability to manage income and expenses, build and maintain reserves, and prioritize or make long-term plans. The Financial Health framework prioritizes efforts to tangibly promote desired financial outcomes that solely constitute financial well-being. By contrast, the scope of the CGAP ToC allows us to expansively explore nonfinancial outcomes *as well*.

FIGURE 5. **Mapping the Sustainable Development Goals to CGAP’s Theory of Change**



The Financial Health framework has significantly improved our understanding of how to define, measure, and promote better financial outcomes. This foundation allows us to attend the persistent gaps in understanding how financial services influence overall well-being, including nonfinancial outcomes.

However, the Financial Health framework is not immune to the knowledge gaps presented in this paper. The fact that we cannot explain well how financial services impact nonfinancial outcomes in poor people's lives (like those related to human capital and physical mobility) makes it hard to answer the question: "Financial health for what?". By exploring more the complex links between financial services and nonfinancial outcomes, we will be in a better position to understand how financial health contributes to poor people's well-being.

The CGAP ToC captures the Financial Health framework through the intermediate outcomes of financial resources—a pathway that contributes to greater resilience and the ability to capture opportunities.

Links with the Sustainable Development Goals

The SDGs represent a consensus among the global development community on priority socioeconomic and environmental outcomes that must be attained to ensure peace and prosperity. The CGAP ToC is fully consistent with the SDGs. How these goals interact and jointly result in peace and prosperity for various groups is not explained in the SDG framing. As such, the SDG framework does not detail what we do or do not know about how financial services contribute to the goals, nor how the goals lead to greater well-being.

"The 17 Sustainable Development Goals (SDGs)...are an urgent call for action by all countries—developed and developing—in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth—all while tackling climate change and working to preserve our oceans and forests." <<https://www.sdsnusa.org/sdgs>>

The CGAP ToC is consistent with the holistic approach of the SDG framework in recognizing the many dimensions of overall well-being and what makes them sustainable. Each SDG maps to an intermediate outcome or context-related variable within the ToC (see Figure 1). From this perspective, the ToC points to the channels through which financial services support the SDGs. In turn, it highlights how the goals can contribute to building poor people's resilience and their ability to capture opportunities for well-being.

Proposed learning agenda

The ToC and Introduction presented in this paper aim to guide the mapping of the evidence on how financial services can enhance well-being by contributing to positive changes in the higher level and intermediate outcomes described above. The rest of the paper is a synthesis of what we know and do not know about the impact of financial services on poor people's lives.

Although there is evidence that financial services can improve intermediate and high-level outcomes leading to well-being, our ability to predict how or when different groups of poor people benefit from different financial products in a given context is seriously limited.⁷

By focusing the financial inclusion learning agenda on attaining greater clarity on how, when, and for whom financial services provide greater well-being, research funders can promote a policy-relevant learning agenda among the research community.

However, if we agree on this proposed learning agenda focus, we will need innovative research methodology to answer those questions related to how, when, and for whom financial services provide greater well-being. While great progress has been made over the past 20 years on research methods that confidently measure impact, we still lack a holistic understanding of how impact happens. We show how new research initiatives are taking on these challenging questions by making it more manageable to consider simultaneously various impact channels that financial services may have.

The CGAP ToC suggests that the financial inclusion community should formulate learning questions through an outcome-based approach rather than a product-based approach. This will lead in a better understanding of who can benefit from the use of financial services—in terms of achieving intermediate (i.e., financial resources, human capital, and physical capability) and high-level outcomes (i.e., resilience and opportunity)—and how this benefit happens in different contexts.

Section 2 of this paper focuses on the higher-level outcomes of resilience and opportunity. It presents outcomes where evidence more consistently indicates that financial services have a positive impact. It also shows outcomes where evidence is mixed, contradictory, or scarce. Finally, it recommends learning questions for future studies that would address knowledge gaps related to higher-level outcomes.

Section 3 similarly presents evidence on how financial services affect intermediate outcomes related to financial resources, human capital, and physical capability. It reviews what we do not know about impact on outcomes of suggests learning questions for future studies.

Section 4 examines the role of context: viewed through the CGAP ToC, context is an important determinant of the way financial services may affect outcomes in the lives of poor people. The case is made for a highly nuanced understanding of the role of context. Special attention is paid to social norms as a critical contextual variable that mediates how various client segments, such as poor women and other vulnerable groups, can have different experiences using financial services and different outcomes relative to others using the same financial services.

7 “Different groups of poor people” refers to a wide range of customer segments of interest to funders, researchers, and service providers. Examples include women in smallholder households, youth migrating from rural to urban areas, internally displaced ethnic minorities, and micro and small businesses in urban areas. By gathering evidence on how financial services help these groups achieve different outcomes we can start to distinguish potentially common impact pathways that can inform more effective financial inclusion policies.

Section 5 focuses on the limitations of the dominant research methodologies to better understand how financial services contribute to improving intermediate and high-level outcomes, and for which groups of poor people. This section reflects on how we can more effectively learn about how impact happens, for whom, and under what conditions. It includes examples of recent research innovations that aim to improve our understanding of the various pathways by which impact on well-being occurs.

Finally, Section 6 summarizes practical recommendations for funders of research to promote the type of research that will improve our learning on how financial services can or cannot help different groups of poor people achieve greater well-being.

SECTION 2

HIGH-LEVEL OUTCOMES: RESILIENCE AND OPPORTUNITY

Takeaways

- There is positive and consistent evidence that savings, insurance, and payments services can help poor people build resilience and capture opportunities. Important progress has been made in scaling these services over the past 20 years.
- We do not know how or when financial services help different groups of individuals build resilience and capture opportunities. Learnings to date show that even initiatives with positive impacts benefit only narrow groups of poor people.
- These learnings should motivate research funders to support studies that distinguish the customer, product, and context characteristics that consistently lead to improved well-being outcomes.

Building resilience— Poor people are able to smooth consumption

WHAT WE KNOW

Research on resilience is predominantly product based, where research questions center around the impact of a specific financial product on a predetermined variable like income, nutrition, or school attainment. These studies show a consistent positive impact of savings, insurance, and payments (i.e., remittances and mobile money transfers) on the resiliency of poor people. People using these financial products are unlikely to report that they are not able to cope and recover from shocks. However, these studies do not explore how the impact estimated happens, i.e. what were the channels through which financial services impacted the various outcomes tested.

When an economic shock hits, access to savings and transfers from family and friends through mobile money means households are better able to manage expenses without reducing consumption (Kast and Pomeranz 2014; Jack and Suri 2014). See Figure 6. The following also have been shown:

- Access to savings accounts can have a positive impact on household consumption (Steinert et al. 2018).
- Mobile money users are less likely to reduce consumption after a shock such as flood or drought (Riley 2018).
- Microinsurance can prevent pawning or liquidation of household assets at giveaway prices (Akotey and Adjasi 2014).
- Farmers with agricultural insurance are less likely to reduce the number of meals in response to a shock (Janzen and Carter 2013).

Social networks—networks of family and friends—are important for accumulating savings and providing informal support, and they are widely used among poor segments. They function as saving, credit, and insurance mechanisms that simultaneously offer the financial and social capital that is particularly valuable for coping with household shocks (Dercon 2002; Fafchamp and Gubert 2007; Gash 2017). Peer pressure increases individual discipline, and credit from a group is perceived as a savings commitment device. Evidence shows that even with increased access to formal services poor people continue to use a mix of formal and informal services (Collins et al. 2009). Furthermore, formal insurance does not crowd out informal forms of insurance (Geng et al. 2017).

Our understanding of the limits of social networks also has improved. Financial and nonfinancial services can break down when a systemic shock, like the COVID-19 pandemic, affects an entire community or country. These types of services often are limited to short-term credit and savings, which can be inflexible and inadequate for long-term investment in livelihood activities (Clarke and Dercon 2009; BFA 2014).

Our TOC illustrates evidence that suggests that a person’s financial resources, such as savings, assets, and income stability, determine their resilience level—their ability to cope and recover from shocks. This can be done by withdrawing savings or selling assets when shocks occur. Furthermore, a person’s human capital, including education, business knowledge, and access to information, can help him or her prepare for shocks to come. For example, this person may be able to get a more stable job, locally or through migration, that allows that person to accumulate savings and assets that can be used to cope with shocks. Similarly, physical capability, including health, nutrition, and physical access to markets, allows a person to execute strategies to cope and recover from shocks—for example, having the strength to work at a job that allows that person to accumulate savings and assets to deal with shocks.

FIGURE 6. **Resilience**



WHAT WE DO NOT KNOW

Evidence shows that on average, savings, insurance, and payments consistently improve resilience. However, we do not know how such impact occurs. There are indications that positive impact does not occur for everyone, yet it is unclear why.

In Kenya, evidence shows that access to savings accounts led female market vendors to increase productive investments. Their incomes increased as a result. The same did not hold true for male entrepreneurs (Dupas and Robinson 2013b). Beyond hypothesizing why there are disparities, studies do not systematically assess the cause of the impact.

A more recent study facilitated access to basic savings accounts in Chile, Malawi, and Uganda by removing opening fees and helping new customers fill out paperwork. Basic accounts were offered to a small subgroup of rural individuals who lived close to a bank branch but had not previously opened an account. Based on the Kenyan experience, it was believed that these savings would be used to promote investments. A follow-up two years later found that few had used their savings account. Only 10 percent of customer households in Malawi, 17 percent in Uganda, and 3 percent in Chile had made at least five deposits, and there was no evidence that any clients made investments (Dupas et al. 2018).

We need more research to look at which product, customer, and contextual features determine whether financial services are useful for building resilience. Consistent with the notion that context matters, we see that an interplay between product features, customer characteristics and capabilities, social norms and community and country context are important determinants of impact. We need to distinguish which of those combinations work for different groups of people, to inform more effective financial inclusion policies.

Designing savings accounts linked to specific goals that poor people want to achieve can be appealing, especially for different groups of poor people that have little bargaining power and find it difficult to keep their savings private, such as women (Karlan et al. 2014). In the Philippines, access to saving accounts with commitment features led women to spend more on female-oriented durable goods such as sewing machines and kitchen appliances (Ashraf, Karlan, and Yin 2006).

Finding effective ways to communicate product features to customers can also increase the use of financial products. For example, an experiment with Compartamos in Mexico found that explaining the features of life insurance to young borrowers, together with information that emphasized the emotional toll on surviving family members, incentivized life insurance uptake (Bauchet 2012).

The ToC helps us hypothesize that different product features for different types of clients in different contextual settings can result in different impacts on resiliency. But studies focused on resiliency do not focus on identifying how variables play a role in shaping the impact observed (Persson and Hernandez 2019).

Learning Questions

- In what ways can a mix of savings, payment, and insurance products improve the resilience of different subgroups of people?
- How do different delivery mechanisms and product features for payment products affect men's and women's resilience in various groups, for example, smallholder or internally displaced households?

Capturing opportunity— Poor people are able to capture opportunity

WHAT WE KNOW

There is evidence of a dynamic cycle between building resilience and capturing opportunities. For example, while poor people with little or no savings and no insurance products may tend to “play it safe” and invest in low-risk, low-return activities, evidence shows that access to savings and insurance products leads poor people to take up riskier and more productive investments. This supports the interconnection between resilience and investments.

The clearest examples of the impact of financial services on capturing opportunities come from the agricultural sector. See Figure 7. The following are some examples:

- Randomized access to rainfall index insurance in Ethiopia increased productive investments by farmers (Berhane et al. 2015).
- Insurance grants to farmers in Ghana led them to take on riskier productive investments (Karlan et al. 2014).
- Randomized insurance contracts led to larger, more intensive investments among cotton farmers in Mali and to increased production in China (Elabed and Carter 2014; Cai et al. 2015).
- Adoption of savings accounts among farmers in Malawi led to large increases in crop investments and crop income the following harvest (Flory 2016).

FIGURE 7. **Opportunity**



WHAT WE DO NOT KNOW

Our theory of change suggests that capturing opportunities means making investments around three main intermediate outcomes: financial resources, human capital, and physical capability. Relative to resilience, evidence on the impact of financial services on the ability

to capture opportunities is mixed. This conclusion has raised fierce debate on whether policy makers should prioritize financial inclusion (Banerjee, Karlan, and Zinman 2015; Banerjee et al. 2017; Meager 2019; Duvendack and Mader 2019).

As the CGAP ToC highlights, part of the problem is that we know little about how and when different groups prioritize capturing opportunities and about how contextual variables change investment decisions over time.

Few studies lay out the ToC thinking that led researchers to hypothesize why financial services should be affecting people's ability to capture investment opportunities (Persson and Hernandez 2019). Most of the literature we reviewed does not verify whether research assumptions coincide with reality, nor does it focus on understanding how assumptions are made. It may be that financial services help capture investment opportunities that are not the focus of studies.

For example, consider a study that tests the impact of credit on poor households' investments in microenterprises. If household members actually use the credit to ensure better nutrition or send their children to school, then the study will find no impact from the credit, even if there is a positive impact on the household in other ways not observed by the study.

Having a comprehensive ToC upfront helps researchers hypothesize the many ways in which impact can happen and then test for them. The literature tends to study the impact of financial services on investments related to financial resources without assessing whether their use influenced changes in investments related to human capital or physical capability.

Impact studies should look for evidence on how different groups of poor people choose investment priorities and how financial services may or may not help them capture investment opportunities. Such studies would explore why people choose certain opportunities over others and would help us understand how financial services can enhance priorities and steer choices toward investments with greater long-term benefits.

The next section discusses knowledge gaps in our understanding of the impact of financial services on the three main intermediate outcomes identified by the CGAP ToC.

Learning Questions

- Which investment opportunities (i.e., those related to financial resources, human capital, or physical capability) are prioritized by different groups of poor people? What are the individual and contextual characteristics that lead to their investment choices?
- Which financial product combinations and features are most conducive to various customer segments that make prioritized investments?
- How can learnings around what determines investment priorities among different groups of poor people inform policies that aim to promote certain types of investments, like health or education?

SECTION 3

UNDERSTANDING IMPACT ON INTERMEDIATE OUTCOMES

Takeaways

- Evidence is mixed on the impact of financial services on outcomes related to financial resources such as employment, entrepreneurship, and income. We cannot assume that financial services always lead to improvements in these outcomes. Evidence around the impact of credit is particularly mixed despite many studies on the subject.
- Relatively few studies focus on outcomes related to human capital and physical mobility, such as educational attainment, access to health services and housing, and food security and nutrition. Evidence is particularly scarce on new financial products like pay-as-you-go (PAYGo) products.
- Funders should encourage research that is focused on outcomes rather than on financial services. This would allow us to systematically collect evidence on how different financial services combinations may or may not help poor people attain the intermediate outcomes they value.
- Research efforts should focus on better understanding the processes and strategies poor people use to achieve intermediate outcomes. They can explore questions on how (and which types of) financial services may or may not facilitate such processes.

Evidence suggests that financial services can help poor people achieve the three categories of intermediate outcomes—financial resources, human capital, and physical capability—at any resilience level. These outcomes represent investment opportunities. Evidence on how financial services positively improve intermediate outcomes shows that savings, insurance, and payments products consistently support achievement of higher levels of human capital, physical capability, and financial resources. But evidence on the impact of credit services is mixed, showing positive impact on different dimensions of well-being in some cases but not in others.

Building financial resources

WHAT WE KNOW

Evidence on the impact of financial services on outcomes related to financial resources is mixed. Most jobs in low- and middle-income countries are found in micro, small, and medium enterprises (MSMEs). Governments, nongovernmental organizations, and donors put resources toward programs and policies to increase employment creation in these areas. A review of the effects of microcredit indicates that the magnitude of impact on some financial resource outcomes is low and varies across regions. Recent research shows that business-oriented credit may more significantly impact existing enterprises compared to individual borrowing to start them (Banerjee et al. 2017; Meager 2019). See Figure 8.

Other evidence shows that a product's features and its delivery strategies influence the impact observed (Field et al. 2013). Augsburg et al. (2015) note: "[E]xperiments show that introducing a grace period before repayment begins increases short-run business investments later on, the likelihood of starting a new business and long-run profits." Furthermore, other experiments have found that community members can accurately identify local entrepreneurs with high potential. This leads to better targeting and increased profits (Maitra et al. 2017; Hussam, Roth, and Rigol 2017). Another study found that microfinance institution (MFI) programs together with skills development training more positively affect livelihoods than standalone programs (Gopaldaswamy, Babu, and Dash 2016).

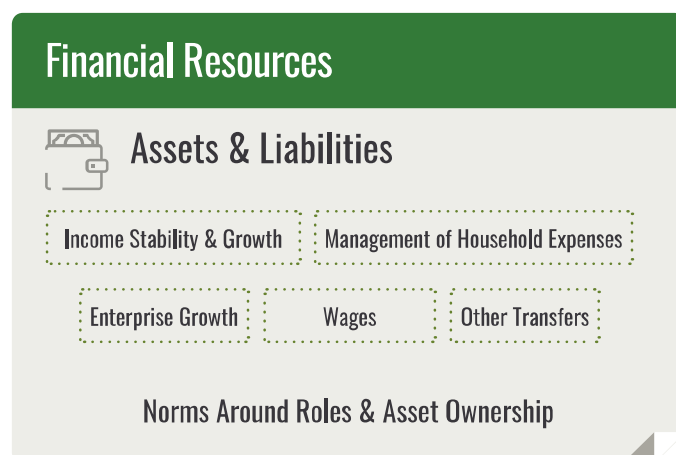
Aside from business-oriented credit, several interventions can have a positive impact on employment, entrepreneurship, and income, including the following:

- Business grants, skills training, and continuous coaching (Blattman, Fiala, and Martinez 2014; Blattman et al. 2016; De Mel, McKenzie, and Woodruff 2012).
- Access to savings accounts (Dupas and Robinson 2013b).
- Consumer credit (Karlan and Zinman 2010).

However, these impacts have not been observed in other studies.

An individual's financial resources can be positively affected and result in improved resilience through pathways other than employment and entrepreneurship. For example, the use of mobile money can improve a household's resilience through increases in levels of remittances received (Batista and Vicente 2016; Suri and Jack 2016; Blumenstock et al. 2016).

FIGURE 8. **Financial resources**



WHAT WE DO NOT KNOW

Evidence on policies to increase employment shows that little is known about the long-term effects and cost effectiveness of different types of policies to promote financial tools for enterprise development (Grimm and Paffhausen 2015). Evidence of the impact of microcredit on business development is mixed. A review of microcredit programs in Bosnia, Ethiopia, India, Mexico, Mongolia, and Morocco suggests that the lack of evidence on significant impact on enterprise development is due to the rigidity of their traditional terms and conditions (Banerjee, Karlan, and Zinman 2015). These studies tend to be narrow in the sense that they do not adequately cover the breadth of microfinance business models, product features, and the differentiated impacts financial services may have on different customer segments.

Based on evidence to date, the financial inclusion community cannot assume that credit availability is preferable to other types of financial services nor to nonfinancial interventions, like trainings, to increase employment and entrepreneurship. As a result, there is no rationale for prioritizing public subsidies for credit interventions over interventions such as business training to promote entrepreneurship. Research should focus on understanding which groups are best positioned to make investments that lead to outcomes related to financial resources and distinguish them from other groups that prioritize investment in human capital or physical capability.

Outcomes-driven analysis can help us better understand not only the individual and contextual characteristics of those groups of poor people that prioritize different types of investments, but also the processes and strategies they pursue in their contexts. We need this understanding before we can assess how different financial services may facilitate such processes.

Funders can address knowledge gaps by supporting cross-country impact research that incorporates granular data on how certain groups of people (e.g., poor women and men in smallholder families) make investment decisions and on the contextual variables that change investment priorities. The data can be analyzed to better explain the reasons for the observed outcomes and impacts of various financial products. With this understanding, studies can assess product features related to repayment schedule, loan size, and interest rates. Studies also can assess type of program (i.e., standalone credit vs. credit plus other financial/nonfinancial services) and the way a program is implemented (e.g., government or non-government organizations, regular or relaxed meeting and saving obligations and community screening processes). Funders also should support research that explores whether credit products are preferable to nonfinancial interventions that aim to improve employment, entrepreneurship, and income.

Learning Questions

- Which credit product features work best for specific client segments, given the intermediate outcomes they prioritize that are within their reach?
- Which types of customers benefit the most from credit services—and in what context?
- What is the most appropriate mix of financial products (credit, savings, payments, and insurance) to help various groups of poor people prioritize investments related to financial resources?
- How does the impact of credit and other financial services compare to the impact of nonfinancial interventions, such as business grants or skills training, when it comes to a person’s employment, entrepreneurship, and income-related outcomes?

Building human capital

WHAT WE KNOW

Education is an important aspect of human capital and a key route toward increased resilience and opportunity. For women, each additional year of education can lead to an increase in wages of up to 20 percent.⁸ Education helps children live a more resilient life. But poor families struggle to consistently keep their children in school, and even in developing countries with free public education, the cost of supplies, books, uniforms, transport, and extra activities may be prohibitive. In addition, school fees often must be paid in a lump sum that is difficult to produce. Paying in cash is time consuming and inconvenient because parents must visit schools several times to pay in installments (Braniff 2016). See Figure 9.

Financial services can help poor households save for education expenses, thus making school payments less burdensome. Adequate financial products can help parents keep children in school without interruption, which positively affects educational achievements. In Nepal, for example, the introduction of a bank account for poor households enabled girls to stay in school an additional six months (Chiapa, Prina, and Parker 2016). Innovations in digital financial services have begun to focus on helping poor households reach educational goals. Some schools found that mobile payments save parents from

FIGURE 9. Human capital



⁸ “What Makes a Great Education?” Global Partnership for Education, 24 January 2019, <https://www.globalpartnership.org/news/infographic/what-makes-great-education>.

having to make inconvenient trips to the bank and enable them to make small payments throughout the school term. Mobile payments become more transparent and easier for schools to track (Braniff 2016). The opportunity for parents to make small payments over time not only saves them from having to come up with the full amount of tuition at one time and to take the time to visit the schools to make payments, it also means that their children can stay in school.

Prioritizing savings for education over other pressing needs can be difficult for poor households. Commitment savings show mixed results in some studies that test their impact on smallholder farmers' investments or emergency reserves. However, studies that focus on outcomes related to education and strengthening social networks are more consistent.

Digital financial products like commitment savings accounts, loans, and remittances can help poor households accumulate funds for school fees. In Zimbabwe, Econet's mobile savings account sends parents reminder messages, and with savings locked, it pays funds directly to the school at the beginning of the term—thus saving parents time and resources. In Côte d'Ivoire, Advans CI offers digital education loans to selected savings product users. Self-reported outcomes showed a 24 percent increase in children starting school in 2016 (Braniff and Sotiriou 2018).

Evidence shows that the use of financial services can build other human capital outcomes such as social capital and women's empowerment. For example, accessing savings accounts has a positive impact on female empowerment and social relationships (Ashraf, Karlan, and Yin 2006; Bastian et al. 2018) and accessing free bank accounts can enhance supportive relationships with neighbors and friends (Dupas, Keats, and Robinson 2017).

WHAT WE DO NOT KNOW

While there is some evidence that digital financial products can improve savings for school fees, currently, there is scarce impact research to test if this translates into greater student attendance and attainment in schools. More research is needed on the types of financial products and their features that best allow parents to save, submit payments, or use loans in order to keep children in school. This type of financial solutions geared at enabling educational investments among poor people are relevant in situation where limited public educational budgets cannot guarantee free education for all.

Research funders should focus on exploring which combinations of products and features most effectively enable parents to pay for education consistently in any given context. Also, funders should support innovative research that focuses on evaluating the facilitating role of financial services in supporting poor people's educational attainments. Studies must note that several factors, such as the quality of teachers and political stability of the country, influence the quality of each student's education and their level of learning. Financial services are but one factor that contributes to better education outcomes.

Learning Questions

- Which groups of poor people (e.g. poor rural households) prioritize investment in human capital (e.g. sending their children to school) versus investments in other areas?
- In which contexts (e.g. emergencies; formal or informal employment, rural or urban households) do poor families prefer to save, borrow or pay for school fees digitally?
- Which features of financial products are more relevant in enabling better educational attainment for different customer segments?
- How can different financial products and features benefit different groups of poor people in building agency, supportive relationships, and emotional well-being?

Building physical capability

Physical capability refers to all aspects of life that physically enable an individual to pursue well-being. See Figure 10. This includes access to basic services related to health; access to energy and water, sanitation, and health (WASH) infrastructure; access to safe housing and shelter; the ability to move and access markets; and the ability to have food security and a nutritious diet.

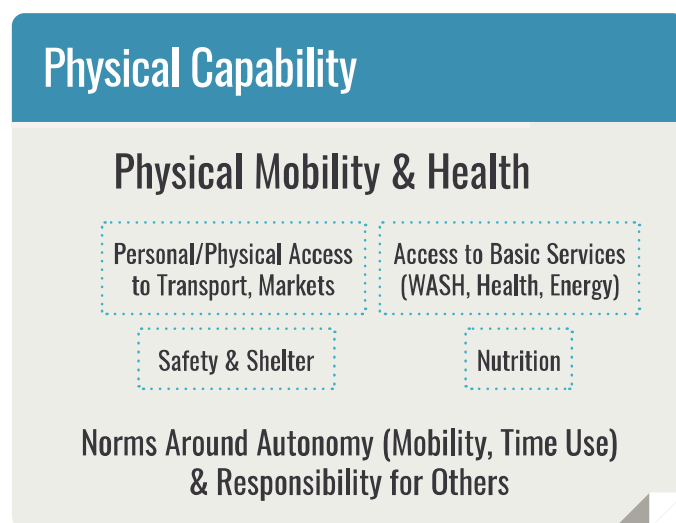
FSPs have begun to look at how financial products can support poor people in accessing important basic services that potentially increase physical capability and thus improve resilience and the ability to invest in better life opportunities.

The following presents evidence on three areas of basic services: access to WASH-related services, health, and electricity. Evidence on how financial services can facilitate access to these services is scarce, given that financial solutions for achieving these outcomes are recent or minimally studied and, therefore, merit further research.

WASH SERVICES

Globally, 2.4 billion people do not have access to sanitation facilities and over 663 million do not have access to drinking water. United Nations SDG 6 calls for universal and

FIGURE 10. **Physical capability**



equitable access to WASH infrastructure by 2030.⁹ Ideally, governments would provide some of these services but in many areas they do not. Building private toilets or piped water connections can be expensive for poor families and communities. It is difficult to accumulate the large lump sums necessary for these investments in the face of priorities such as food, health, and education (Natu, Kant, and Kumar 2014).

Recent efforts to deliver financial services for WASH focus on providing credit and creating a digital ecosystem that makes delivery more efficient. However, impact evidence is scarce. Water providers are increasingly experimenting with digital payments to reduce delivery costs, and increase transparency, security, and business model innovations. Microcredit for WASH services is new and there is still need to enable the right loan features, such as affordable interest rates, adequate grace periods, and appropriate loan contract durations, such that the uptake of those loans scale significantly (Waldron et al. 2019).

The CGAP ToC shows that country context is likely a strong determinant of whether financial services can facilitate investment in WASH infrastructure. For instance, public investment in building a sewage system can encourage poor people to invest in WASH services at home. In such conditions, financial services can support household WASH investments by smoothing them over time (Natu, Kant, and Kumar 2014).

Funders should encourage research that focuses on how financial services, including but not limited to credit, can facilitate access to WASH services, which will complement the few studies that look at the impact of financial services on WASH-related outcomes.

Learning Questions

- Which financial products and features most effectively support access to WASH services for different groups of poor people?
- Which type of government infrastructure investments (e.g. sewage, roads, electricity grid) can contribute to increased access to WASH services in different country regions?
- How can the sector enable access even for pockets of the population that do not use digital financial services and live in remote areas?

HEALTH SERVICES

When public health systems are not universal within a country, as is the case in most developing countries, access to health services can be expensive for poor households, and health emergencies can mean income loss from missed work, depletion of assets when used pay for health care, reduced consumption, inability to attend school, and a generally lower level of well-being for the entire household. Health emergencies often result in large and unexpected out-of-pocket expenses, and financial products can help poor families

9 “Ensure Availability and Sustainable Management of Water and Sanitation for All,” United Nations, <https://sustainabledevelopment.un.org/sdg6>, accessed 24 February 2020.

save and prepare for them. Microfinance organizations have tried to fill the gap in health coverage by offering health savings accounts, health loans, and health insurance together with basic loans. There is some evidence that these services are effective.

Access to savings accounts can increase the ability of poor people to cope with health emergencies (Prina 2015; Dupas and Robinson 2013a). Access to health insurance induced positive health behaviors and reduced out-of-pocket medical expenses in Rwanda and increased the frequency of regular check-ups in Vietnam (Singh 2018; Pham and Pham 2016).

In contrast, an experiment in India that bundled loan renewals with health insurance led to a 23 percent drop in loan renewals. Many clients chose to forgo the loan product because they did not want to pay more for the insurance benefit (Banerjee, Duflo, and Hornbeck 2014). This suggests that although health goals may require simultaneous use of several financial products, it is important to understand how products bring value to poor people's priorities and to design service bundles that address the needs of poor people.

The offer of health-related services by microfinance organizations remains limited for several reasons. MFIs aim to operate efficiently and to keep interest rates low, which limits their ability to deliver complex loan products like health insurance directly to individual customers living in poor areas. They also lack the expertise to connect their products with health services providers and programs (Leatherman et al. 2012). Health loans could instead be directly disbursed to customer aggregators like, medical clinics, and health services providers and MFIs could partner to offer joint products.

Loan and insurance products show little evidence of impact on health. We do not know which contextual factors make products more effective for different groups of poor people to access health services. Funders should support research that determines how financial products best facilitate access to health services and improve their quality.

Learning Questions

- How do different groups of poor people design strategies to deal with health emergencies? How can a mix of formal financial services add value to their strategies?
- How can different combinations of health loans, insurance, and payments products help different groups of poor people make longer term investments in health—beyond emergencies?
- How can financial services improve the uptake of healthcare services by different groups of vulnerable poor people?

Access to electricity through PAYGo solar

Having electricity and light at home can change lives in many ways. In addition to an improved quality of life for households just from having electric lighting, there could be other benefits, including allowing children to study longer and reducing household members'

exposure to fumes from firewood or kerosene lamps. However, impact studies on these possibilities are relatively scarce, and the little evidence that exists shows mixed results.

For example, the impact evidence on the effect of PAYGo solar on education outcomes is not conclusive. Use of home solar systems appeared to increase study time in Uganda (Furukawa 2014), but this does not seem to hold in Kenya (Rom, Gunther, and Harrison 2016, as cited in Lee, Miguel, and Wolfram 2019). In Rwanda, study times increased for boys, but not for girls (Grimm et al. 2017). We have yet to understand why.

The relative scarcity of evidence on PAYGo suggests that use of comprehensive ToCs to design impact studies would allow various impact pathways to be hypothesized and tested. Beyond the obvious notion that lighting matters and is valuable to everyone, we need to know if there are other dimensions to consider. This paper specifically looks at what makes PAYGo valuable to poor people in reaching their various goals, as our ToC suggests it might. If we understand these impact pathways better, then we can build consensus on how PAYGo solutions are able to deliver more value to different groups of poor people.

The fact the little impact evidence we have is mixed speaks to the limits in the product-based approach used in research methods. We argue that the outcome-based approach can generate more conclusive evidence on how PAYGo can help poor people achieve different goals. Furthermore, an outcome-based approach can help us understand how to best deliver PAYGo services. There is ample room to explore financial PAYGo product features that enable different customers, such as poor rural women or older male smallholder farmers, to access for example, solar home systems or irrigation systems, in ways that help improve their overall well-being. The PAYGo solution is not the end goal, but it can be the means to viably deliver services that contribute to greater well-being.

There also is a need to better understand how different product features could allow various groups of poor people sustainably access basic PAYGo services without compromising household expenses. Although it would be ideal for the public expansion of electric grids to continue and reach poor people, PAYGo can offer a more sustainable solution for those who currently don't have access to electric grids.

Learning Questions

- Which outcomes—prioritized by different groups of poor people—can PAYGo services help attain?
- How can different contract features bring greater value to different groups? For example, how can specific product characteristics increase the number of poor rural women accessing PAYGo services?
- Is subsidizing PAYGo solar products more cost effective than subsidizing community electric grids?
- Which contract features should be avoided because they can lead to unexpected negative consequences?

HOUSING

Adequate housing is an important well-being goal for poor people. A big enough house made of good material provides families with safe and private shelter. Improving a house also makes people feel proud and happy. However, building and maintaining it can be expensive. Among other pressing needs, poor households may find it difficult to save to purchase, construct, or renovate a house.

Housing microfinance consists of small, nonmortgage-backed loans that allow poor people to progressively build their homes. Small loans generally are a few hundred dollars and can help families gradually upgrade their home by adding a concrete floor or improving the roof, for example.

Evidence on the impact of this type of intervention is scarce. A few studies were conducted in Uganda and Kenya for the Building Assets–Unlocking Access project by Habitat for Humanity. The project supported six financial institutions to develop housing microfinance products and nonfinancial support services for people living on US\$5–10 per day. Borrowers were able to access small, short-term loans with affordable payment schedules, which gradually improved their housing situation. Habitat for Humanity (2018) found positive evidence on housing conditions and levels of housing satisfaction but no impact on the economic indicators like poverty or consumption levels for families involved in the project.

Funders should focus on promoting research to better understand how different product mixes and features support different types of poor families in progressively building homes without negatively affecting their livelihoods. It is critical to understand how the most effective housing strategies may change in certain market contexts. Funders and researchers should collect rigorous evidence on the effects of bundling different financial services for housing.

Learning Questions

- Which combinations of products and features better enable different groups of poor people, such as men, women, single women, and youth, to progressively build their own homes?
- What are the key characteristics of an environment that enables poor people to access financial services and other services required to build their own homes?

SECTION 4

CONTEXTUAL FACTORS

Takeaways

- The CGAP ToC recognizes that improved well-being is not an independent exercise driven by the individual decisions of people living in poverty. It also requires conditions at the community and national level that reduce risk and create opportunities. These important contextual factors include the institutional, social, and cultural norms within which poor people live. The evidence suggests that contextual factors can relate to client segments, types of products, product features, product delivery, and socioeconomic, cultural, and environmental conditions.
- The ToC highlights social norms as a contextual factor that significantly influences the impact of financial services, yet there are few efforts to systematically collect evidence on the influence of norms. Funders and researchers should pay more attention to how social norms influence access to and use of financial products and how they impact intermediate outcomes.
- Data suggest that the use of financial services may be influenced by social norms and that it may change social norms. For example, use of financial services can increase women's autonomy, bargaining power, and decision-making, depending on design and delivery. However, social norms can limit what women achieve when offered financial services, which makes financial services less valuable in some contexts.

It is clear that we need to know more about how contextual factors influence the observed impacts of financial services. Contextual factors include individual characteristics among different groups of poor people as well as macro- and meso-level socioeconomic, cultural, and environmental characteristics. The CGAP ToC can help identify all contextual settings likely to positively or negatively affect the impact of financial services on poor people and their ability to achieve well-being goals. Understanding contextual factors is key to designing product features and financial inclusion policies that translate into well-being.

Our ToC assumes that improving well-being is not an independent exercise driven by the individual decisions of people living in poverty. Well-being also requires conditions at the community and national level that reduce risk and create opportunities. Communities and governments play an important role in creating the conditions in which poor people

can prosper. Aside from ensuring the availability of basic services, they are critical in creating general conditions such as investment climate, political freedom, environmental policies, and rule of law that allow enterprises to sustainably thrive and create decent jobs. Ultimately, opportunities must exist before poor people can capture them.

Some recent studies have begun to consider how contextual factors influence the type of impact poor people can achieve. The following are some examples.

Political factors

Political and macroeconomic stability positively affect financial inclusion interventions and users of financial services. Evidence shows that political stability positively influences economic growth (Nomor and Iorember 2017; Aisen and Veiga 2013; Canes-Wrone and Park 2014).

Product features

From a supply-side perspective, understanding contextual factors faced by different groups of poor people can help financial services providers tailor their product features to benefit customers. For example, grace periods can increase short-run business investments and long-run profits, while credit agreements that require early repayments limit the potential for enterprise growth (Field et al. 2013; Augsburg et al. 2015).

Client segments

Evidence shows that the use of financial services variously can affect different types of clients. Differentiating characteristics such as age, gender, ethnic or religious minority status, refugee status, and disabilities may affect their ability to use and benefit from financial services. Endowments such as level of business experience or education also can influence how they benefit from use.

Business-oriented credit, for example, may more significantly affect existing enterprises than new ones (Banerjee et al. 2017; Meager 2019). In addition, experiments that use community information have found that community members can accurately identify high-potential local entrepreneurs. By making use of this information, providers can better target customers and entrepreneurs and providers can increase their profits (Maitra et al. 2017; Hussam, Roth, and Rigol 2017).

The influence of product features and client segments can overlap. Evidence shows that the offer of a basic bank account with no opening fees to new customers in Chile, Malawi, and Uganda appealed to only a small subgroup of program participants. Different features

of savings interventions matter in different ways to different segments of the population, and simply expanding access to generic accounts did not appeal to most of the targeted unbanked populations in these countries (Dupas et al. 2018).

A better understanding of the life goals of different segments can lead to creating and offering goal-oriented products that are more likely to be wanted and used. For example, savings products with commitment features can increase the likelihood that users will reach their saving goals (Brune et al. 2016). Evidence also shows that savings accounts linked to specific goals can be especially appealing to different groups of poor people, such as women, who may have little bargaining power or find it difficult to keep their savings private from others (Karlan, Ratan, and Zinman 2014). This highlights the importance of product design in building resilience for specific segments.

Cultural and social norms

Within all contextual variables indicated in the ToC, social norms may have the strongest influence on an individual's ability to benefit from the use of financial products. The ToC assumes that social norms influence autonomy, mobility, use of time, responsibility for others, decision-making, household roles, bargaining power, and the ability to own and use assets. This is particularly germane for many women around the world.

Economic anthropology argues that financial and economic behavior is embedded in cultural norms and social relationships. As such, norms and relationships influence how people perceive and understand the concepts of savings, credit, and debt and, at the same time, their own economic and financial behavior. It follows that social norms may enable or constrict specific behaviors, such as taking a loan, running a business, or accessing education.

Less evidence is available on the role of social and local norms, such as those around gender and age, to explain the impact evidence of financial inclusion. Social norms may determine the ability of an individual to move, open a business, access a market, buy or inherit assets, or even access and use financial services. But social norms ultimately affect how poor people reach and improve on well-being goals.

The field of financial inclusion has a limited understanding of (i) how and which type of social norms affect the use of different products on specific groups of poor people and (ii) how financial inclusion initiatives positively or negatively contribute to changing social norms. Addressing these two questions would greatly help our understanding of the nexus between financial inclusion and social norms.

Women's economic empowerment

Social norms play a strong role in women's empowerment. Evidence shows that the impact of microcredit on women's empowerment is mixed, and often not significant. Of the six

early microcredit randomized evaluations conducted by Banerjee, Karlan, and Zinman (2015), four explicitly tested for impact on empowerment. From these four studies, three found no evidence of women's empowerment. Only the Compartamos study showed an increase in decision-making power for women (JPAL 2015).

El-Zoghbi, Holle, and Soursourian (2019) show that women are more likely to achieve positive business outcomes when they control loan funds or can limit diversion of funds to their spouses. Evidence also shows that much of the gender gap in firm performance is not linked to the aptitude of the entrepreneur, whether male or female (Bernhardt et al. 2017). Rather, it is associated to the control or agency the entrepreneur has over the use of resources (Said, Mahmud, and Chaudhry 2017). Another study found that women achieve better business outcomes when they are given the chance to hide funds from their spouse, whether loans or grants (Fiala 2018). Where women have limited agency, credit alone is insufficient for overcoming social norms that constrain their ability to use the funds for their own enterprises (El-Zoghbi, Holle, and Soursourian 2019).

Financial products can be designed to support women's control over resources. Digital accounts can increase savings and access to credit by providing the privacy women seek in order to reduce pressure from family and friends and by giving them control and autonomy over how they allocate resources (Bastian and Goldstein 2018). In some cases, women's control of financial services has shown to improve their household bargaining power and labor outcomes. A study in South Africa, for example, tested whether women who had greater control of resources through direct government transfer payments to their accounts were likely to participate in the labor force. The test found that the women experienced greater bargaining power and decision-making, which in turn, increased the likelihood that they would join the labor market (Biljon, von Fintel, and Pasha 2018). The results link account ownership with household power dynamics. A similar study in India found that government transfers to women's accounts increased the number of women working, particularly those who had not previously worked and those whose husbands disapproved of women working outside the home (Field et al. 2016).

Research on the role of social norms is context specific, and local knowledge and perspectives must be sought when considering local norms. The next section recommends ways of making research more inclusive of local knowledge and perspectives.

Learning Questions

- How do social norms help explain the observed impact of financial services on intermediate outcomes sought by different groups of poor people, particularly women?
- Under which conditions can financial services change social norms, for example, those related to women's decision-making and bargaining power in the household?
- Which local-level contextual factors most influence the impact of financial services on poor people's lives?

SECTION 5

HOW WE CAN LEARN MORE EFFECTIVELY?

Takeaways

- It is difficult to reply to learning questions proposed with the dominant impact evaluation methods used by the financial inclusion community. Funders should encourage methodological innovation and diversification that account for various impact pathways for financial services while simultaneously documenting the changes in strategies poor people use to achieve intermediate and high-level outcomes.
- CGAP's proposed ToC for financial services takes a step in this direction. It provides a framework that researchers can use to hypothesize several impact pathways and outcome levels.
- There are a growing number of new research initiatives that combine theory-based evaluation (TBE) approaches and mixed methods to start answering the type of questions proposed in this paper. These initiatives are making it more manageable for impact studies to consider how several contextual variables simultaneously interact with financial services to influence outcomes in people's lives. Therefore, the types of questions proposed in this paper cannot be dismissed as too complex to be considered.
- Funders should support further development of these new research initiatives, which are on a promising path to help us better understand how financial products affect different groups of poor people in various ways.
- Multidisciplinary and multicultural research teams can lead to more policy-relevant research results.

Methodological innovation in impact evaluations is needed to improve our understanding of the complex processes of change and the contextual characteristics that shape the impact of financial services on the lives of poor people. Currently, dominant rigorous impact evaluations use experimental or quasi-experimental approaches that focus on

causal attribution. That is, they ensure that the estimated change in outcomes for poor people is due only to the financial product being tested. Although rigorous in measuring the magnitude of impact, this focus makes it difficult to explain why or how impact happened and the influence of contextual variables on the impact observed.

These experimental methods have greatly advanced our understanding of what works and what does not and will continue to be part of the solution to address proposed knowledge gaps. However, merging these methods with qualitative approaches described in this section will help to systematically collect and contrast contextual variables across studies to start identifying when, for whom, and how impact happens. Box 2 presents examples of the complex change processes that are implied in the learning questions proposed in this paper.

BOX 2. **Complexity in the CGAP Theory of Change**

- **Financial services demonstrate impact through several pathways.** One intervention can result in several effects. For instance, we now know that financial inclusion interventions impact resilience and the ability to seize new opportunities through several routes.
- **Outcomes occur at several levels.** We know that financial products can impact resilience and opportunity through intermediate outcomes related to financial resources, human capital, and physical capability.
- **The causality between outcome levels runs in both directions.** Intermediate outcomes improve as poor people become more resilient and invest in new opportunities. As resilience improves, new opportunity sets become available around intermediate outcomes. This gives rise to virtuous cycles or feedback loops.
- **Multiple interventions can result in one effect or outcome.** Poor people simultaneously use several financial services in various combinations. Financial services come from formal and informal providers. Their optimal combination of credit, savings, insurance, and payment products may change, depending on the outcomes they seek and the products they can access. The optimal product mix may change as the suite of available financial services becomes more diverse (Collins et al. 2009).
- **Financial inclusion interventions can have a negative impact.** Interventions may affect multiple processes of change and result in intended or unintended and positive or negative outcomes. For example, credit contracts offered at high interest rates (or even market rate) may push poor people facing emergencies or natural disasters toward a negative spiral of lost assets, human capital, and physical capability.
- **The impact of financial services operates through different causal mechanisms in different contexts.** The impact of informal and formal financial services is influenced by prevailing social and cultural norms that vary by location. The CGAP ToC includes country context by taking into consideration community assets, governance, and institutional norms. It also considers local context—social norms that govern decision-making, mobility, and restrictions on how individuals use their time, depending on whether they are youth, women, ethnic or religious minorities, immigrants, and so forth. Different groups have different degrees of access to financial services and impact is conditional on what social norms allow.

Research funders and academics should invest in complexity-responsive approaches to promote a broader set of impact evaluation methodologies, including pilot tests of alternative methodologies. In this way, the explanatory power of impact evaluations using randomized control trials and other quantitative methods will improve. This heightened understanding will be key for program adaptations in different contexts (Kabeer 2019). This would be the case for initiatives that promote use of credit, as Section 3 observes.

The remainder of this section discusses the rise of new research initiatives that take on the challenge of building rigorous methodologies that are more responsive to complex change processes than currently dominant methodologies are. Although not necessarily new, these approaches have been adapted or merged to address outcome-focused questions on the impact of financial services on well-being. They also use dominant complementary experimental and quasi-experimental research methods.

Funders of research must be made aware of these new research initiatives. They may not be well known, in part, because they only recently have been applied to questions related to financial inclusion. In addition, they may not yet be perceived as rigorous by some policy makers and researchers, relative to more mature experimental methods such as randomized control trials (RCTs). Not only do funders of research need to be aware of these new research methods, they need to ensure they do not unintentionally underfund their development given their potential to address challenges in dealing with complexity.

Theory-based evaluation

TBE focuses on defining the theories, assumptions, and possible impact mechanisms of an intervention before a study is conducted. Current impact literature sometimes fails to make these features explicit, which carries the risk of testing hypotheses that do not lay out the impact pathways assumed by researchers and, therefore, may not lead to informative nor policy-relevant conclusions despite being intellectually interesting.

TBE has two core components: (i) the development and articulation of a ToC for an intervention and (ii) the investigation of how the intervention may cause the observed outcomes. The approach has several benefits. It helps to describe context and how contextual factors may affect program outcomes. It can describe interactions among several actors and across several components. And it can lay out the complex processes of behavioral change and the operation of mechanisms through which an intervention is expected to produce its outcomes. The ToC should present positive intended outcomes and anticipate potential negative outcomes.

Once this is done, various quantitative and qualitative empirical methods can test each of the impact pathways hypothesized in the ToC—validating or rejecting them. The results ensure a more holistic understanding of the processes being changed by the intervention. Several methods can be used within the framework of TBE, including RCTs, realist evaluation, contribution analysis, process tracing, and qualitative comparative analysis, among others (Leeuw 2016).

One example of a TBE approach is a realist systematic review. In our research, we have taken the first step in applying a realist systematic review to financial inclusion by articulating a new ToC for the impact of financial services, along with underlying assumptions. The next step is to test empirically how financial inclusion causes proposed outcomes by exploring mechanisms that lead to change and by exploring how contextual factors contributed to such change.

Another example of research using the TBE approach is illustrated in Bandiera et al. (2017). In this study, the researchers explain the contextual characteristics used for hypothesizing and testing for impact. They find that disaggregating the customer sample by income and documenting local labor markets are crucial for explaining the observed impact.

Mixed methods

For decades, mixed methods mainly have been used in social sciences like sociology and anthropology. Recently, they have been used to capture nuances of the processes of change in impact studies. They systematically combine qualitative and quantitative methods in some or all stages of an evaluation. The methods used depends on the research questions being asked.

USAID (2013) defines mixed-method evaluation as integrating “two or more evaluation methods, potentially at every stage of the evaluation process, usually drawing on both quantitative and qualitative data. Mixed-method evaluations may use multiple designs, for example incorporating both randomized control trial experiments and case studies. They also may include different data collection techniques such as structured observations, key informant interviews, household surveys, and reviews of existing secondary data. In short, a mixed-method evaluation involves the systematic integration of different kinds of data, usually drawn from different designs. As a result, mixed-method evaluations require advanced planning and careful management at each stage of the evaluation process.”

Analyses from mixed methods incorporate the strength of qualitative methods, which provide detailed insights into the causal processes of observed outcomes (Kabeer 2019). Approaches such as outcome mapping, outcome harvesting, most significant change, in-depth interviews, ethnography, and case studies elucidate the processes and mechanisms of change.

For example, mixed methods were used to evaluate the Savings for Change program in Mali (BARA 2013; Bamberger 2016). The program aimed to strengthen household well-being by promoting women’s savings groups. The mixed-methods design called for sequential quantitative, and then qualitative, evaluations. The quantitative research consisted of an RCT of 6,000 women that focused on measuring impact on economic variables like savings balance, livestock holdings, and amount of money borrowed. It also explored changes in social capital as defined by talking to the village chief, attending meetings, and voting. The qualitative research consisted of in-depth ethnographic studies of household and social dynamics.

The RCT found that women in treated communities saw small improvements in economic variables, but they had not formed new relationships and there were no significant increases in social capital. The ethnographic studies, however, found that while the number of new contacts did not increase, women's contacts with social networks were strengthened and the increased frequency of interactions strengthened the social cohesion that improves resilience, which revealed some of the subtle, but still important, nuances of change.

Examples of complexity-responsive methodologies

Impact evidence based on TBEs and mixed methods is not as common as we would like to see in the financial inclusion arena. However, some innovations are moving in this direction and can be useful in directing future funder and researcher community efforts.

The Realist Evaluation, Qualitative Impact Assessment Protocol (QuiP), BBVA Microfinance Foundation's Social Performance Methodology, and UNCDF's Pathways to Impact Approach are designed to account for complex interventions. These methods collect data on context, can be used with mixed methods, and/or involve North–South partnerships. Most approaches are relatively faster and cheaper than conventional impact evaluation methodologies because of their simpler data collection strategies.

REALIST EVALUATION

Realist evaluation is one of the TBE methodologies specifically designed to address complexity, and it can be used with mixed methods. It emphasizes complex behavioral mechanisms, including unpredictable behavioral changes, with the understanding that these mechanisms can operate differently in different contexts. The methodology was designed to develop and test usable theories about complex and varied interventions applied across multiple contexts. It focuses on context, mechanisms, and outcomes where the interaction between context and mechanisms leads to program outcomes. Mechanisms in realist evaluations are the combination of reasoning and resources that enable programs to work. They also have been defined as “a constellation of entities and activities linked to one another in such a way that they regularly bring about a particular type of outcome” (Hedstrom 2005 in Vaessen et al. 2014). Realist evaluation asks the question, “What works for whom in what circumstances and in what respects, and how?” (Pawson and Tilley 2004).

The realist approach also has been applied to systematic reviews called *realist synthesis*. These reviews are theory based rather than solely focused on outcomes, and they can be used for theory building and theory testing. One example is the systematic review by Vaessen et al. (2014) of the effects of microcredit on women's control over household spending in developing countries.

The review explored two questions: What does the impact evaluative evidence say about the causal relationship between microcredit and the specific dimension of women's

control over household spending? What are the mechanisms that mediate the relationship between microcredit and women's empowerment? The review used two lines of analysis: a quantitative meta-analysis and a qualitative analysis of mechanisms. The quantitative analysis of effect sizes across 29 diverse studies showed no evidence of microcredit having a significant effect on women's control over household spending.

This qualitative analysis helped researchers to identify the key impact mechanisms at play by exploring how microcredit could affect women's control over spending. Following this analytical approach, researchers first identified which of the selected studies presented a theoretical framework for the relationship between microcredit and empowerment. Next, they reviewed the selected studies for information on the mechanisms used, and then they created a narrative overview that summarized each type of mechanism.

The researchers identified several behavioral mechanisms that explained the observed outcomes, which were associated to the heterogeneity in microcredit interventions, contexts and target groups. They included situational mechanisms, such as the availability of loans and the economic and demographic composition of households, and action-formation mechanisms, such as entrepreneurial spirit, women's pride, self-esteem and self-efficacy, and social capital.

Situational mechanisms operate at the macro-to-micro level. According to Leeuw (2016), they "show how specific social situations or events shape the beliefs, desires, and opportunities of individual actors." Leeuw goes on to describe action formation mechanisms as "[operating] at the micro-to-macro level. These examine how individual choices and actions are influenced by specific combinations of desires, beliefs and opportunities."

In the systematic review of microcredit interventions, Vaessen et al. (2014) state that the meaning behind mechanisms can come to light by asking a series of questions. For example, for situational mechanisms, one question may be "To what extent and in what ways do the existing opportunity structure of a region/area affect the chances for women to receive microcredit?" For action-formation mechanisms, questions may include "How do changes in the opportunity structure through microcredit affect the behavior of women vis-à-vis men in the household, and under what conditions? What social, cultural and behavioral mechanisms underlie processes of empowerment ... of women receiving microcredit?"

Vaessen et al. concluded that "the way in which microcredit is delivered, in combination with the given gender relations context, seems to determine to a large extent whether microcredit can make a difference for women's decision-making power and control over resources in the household." They suggested that future research may include a systematic review of qualitative studies to construct more complete causal theories about microcredit interventions and the circumstances in which they may change women's decision-making power.

QUALITATIVE IMPACT ASSESSMENT PROTOCOL (QUIP)

QuiP methodology uses careful and rigorous qualitative data collection methods to assess differential impacts across clients—in effect, looking at *what works for whom*. This method was developed to be faster and less expensive than RCTs; however, they also can be

used together with quantitative methods. As the name suggests, QuiP relies on clear and transparent qualitative research protocols that use rigorous coding and thematic analysis of causal claims embedded in narrative accounts to evaluate outcomes. It uses client self-reported attribution rather than a comparison group to establish causal mechanisms (Leeuw 2016). At the same time, it gives more voice to the client relative to dominant quantitative experimental methods. The technique used to select cases and the manner in which field research is conducted reduces cherry picking and confirmation bias. These are some of the key factors behind this methodology's strength. The approach intentionally engages in North–South partnerships by using local staff and researchers to conduct fieldwork, which aims to make sure the team of researchers possesses local knowledge (Copestake, Morsink, and Remnant 2019).

BBVA MICROFINANCE FOUNDATION SOCIAL PERFORMANCE METHODOLOGY

The BBVA Microfinance Foundation (2020) approach evaluates the impact of its financial services on clients by integrating an impact methodology into FSP operations. In addition to collecting large amounts of client information, BBVA collects data on contextual variables related to customers' livelihood environment. The data are used to better understand which financial products are appropriate for individual clients and to assess client outcomes.

In addition to individual client outcomes, BBVA looks at outcomes across different groups to capture heterogeneous effects. Contextual information help to reveal the factors that influence a client's evolving outcomes. Data collection continues throughout the relationship between provider and client, allowing BBVA to see long-term trends in changes in outcomes. This approach is unique in that it involves continuously assessing client outcomes over their relationship with the institution and closely integrating outcomes measurement with the institution's operations.

UNCDF'S PATHWAYS TO IMPACT APPROACH

The Pathways to Impact Approach is a framework that explores multiple pathways of change and outcomes by linking a range of financial product use cases to individual SDGs based reported benefits (i.e., intermediate outcomes). The approach starts with the assumption that a particular financial product can be and is used for many different purposes and that a client can experience a range of benefits for each purpose. It was created for the United Nations Capital Development Fund (UNCDF) Pacific Financial Inclusion Program (PFIP) as a way to quickly and continuously think about broader outcomes in addition to impact. In this approach, transactions data are used to assess the use of financial services. Then, clients are surveyed to assess the benefits or intermediate outcomes that result from use. The UNCDF PFIP study found that, among other things, customers value the "light benefits," such as feeling less stressed or having stronger social networks, of using particular financial products (Collins et al. 2019).

SECTION 6

FINANCIAL INCLUSION FOR WHAT? RECOMMENDATIONS FOR FUNDERS AND RESEARCHERS

The field of financial inclusion has made great progress in access to formal financial services for poor people, and we continue to improve our knowledge on the impact of financial services. There has been consistent positive evidence of how financial services can improve well-being by leading to increases in high-level outcomes, such as building resilience and capturing opportunity, and contributing to intermediate outcomes, such as financial resources, human capital, and physical capability.

Yet we still do not know how this impact happens for different groups of poor people or in which context financial services can or cannot contribute to those different intermediate and high-level outcomes that constitute well-being. Hence, policy makers find it difficult to predict when financial services can have a positive, neutral, or negative impact on certain groups of people's well-being.

There are several promising areas of intervention for funders of research. Evidence shows that the financial industry alone cannot reach the poorest and most remote pockets of the population, and research focused on measuring impact with a product-centric view is not sufficient to explain processes of change. While access is important, financial inclusion is not an end in itself—it is one of the means to achieving well-being goals.

Funders should support knowledge created through an outcome rather than a product focus. This will help us to better understand how contextual factors, such as social norms, macroeconomic stability, and government social programs, can shape the impact financial services have on poor people's well-being.

Multistakeholder partnerships can more effectively address the suggested learning questions presented throughout this paper. Here are three recommendations for funders.

Focus research questions on intermediate- and high-level well-being outcomes that may be (positively or negatively) impacted by various financial services.

The CGAP ToC provides the framework to help researchers and funders think through how financial services can facilitate the various outcomes among different groups of poor people that lead to greater well-being. Examples include intermediate outcomes like building financial resources, human capital, and physical capability or high-level outcomes like building resilience and capturing opportunities.

However, we need research methodology innovations to better understand how contextual variables interact to determine the impact of financial services on the well-being of different groups of poor people. Efforts to innovate research methodology have already begun and are showing us ways to manage the greater complexity implied by considering various customer segments and contexts. Funders should support the development and expansion of these emerging research methodologies.

Furthermore, funders and researchers should prioritize theory-based methodologies that systematically hypothesize and test the many ways financial services can have an impact on various outcomes leading to greater well-being. Thinking grounded in a ToC is needed to develop hypotheses tested in impact evaluation studies. The CGAP ToC is an example of a theory-based approach that hypothesizes upfront the many ways financial services can have an impact and helps shape a learning agenda that tests all these hypotheses. As these types of theory-based studies are generated, we can start distinguishing patterns that can inform financial inclusion policies on how and when financial services can or cannot help different groups of poor people achieve greater well-being.

Focus on diversifying the contextual settings in which impact studies are carried out to explore associations between specific context factors and customer outcomes.

Most quantitative studies take place in a restricted number of countries with the adequate infrastructure to carry out research (Nunn 2019). It follows that many financial inclusion studies are conducted in countries with relatively easy logistics, and as a result the contextual diversity in which impact is measured is limited. For example, in a global review of savings groups impact studies, Gash (2017) found that 83 percent were conducted in Africa. Of these, 60 percent were conducted in East Africa. Because the sector has underestimated the importance of analyzing contextual differences in evaluating the impact of financial services, research findings do not allow us test associations between customer outcomes and various contextual settings. This should change.

The CGAP ToC can be used as a visual tool to help researchers and funders hypothesize how context facilitates or hinders poor people's ability to move toward well-being. It considers country context, including community assets, governance, and institutional norms; local context through social norms around decision-making, mobility, and responsibility; norms on roles of different types of people within social networks; and client characteristics.

Promote partnerships with local universities and across disciplines within research programs that are funded. Current impact evaluation literature for financial services is dominated by the economics discipline. And the leading research perspective is from the developed world. Funders can promote interdisciplinary research that engages multiple research institutions in North–South partnerships and promote prominent participation of local researchers.

Recent innovations in mixed methods for financial inclusion studies focus not only on integrating quantitative and qualitative methods but also on improving the integration of approaches that come from different social sciences and include different perspectives, such as those from anthropologists, sociologists, and historians (Bamberger 2016; Nunn 2019).

Efforts to invest in and develop new research methodologies and partnerships that improve our understanding of context can go a long way toward helping us understand how different financial products and their features can help different groups of people to achieve their desired outcomes.

The field of financial inclusion has made great progress over the past 20 years. We need to continue to build on that progress, so that we are finally able to answer the question: Financial inclusion for what? Efforts to invest in industry and research innovation have the potential to go far in improving the effectiveness of financial inclusion policies to make financial products and services more valuable for different groups of poor people.

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