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ASSESSING THE EFFECTIVENESS OF BILATERAL AID ON FINANCIAL ACCESS, MICROFINANCE, AND ECONOMIC GROWTH IN BANGLADESH, RWANDA, AND MOZAMBIQUE

Abstract:

Financial exclusion remains one of the most persistent barriers to economic development, constraining private-sector growth, limiting poverty reduction, and perpetuating economic disparities. Bilateral foreign aid has long been a tool for addressing financial sector deficiencies, yet its impact on financial inclusion remains debated. Can aid meaningfully expand access to credit, increase financial intermediation, and strengthen institutional governance? Or does it merely act as a temporary fiscal injection with limited structural impact? To assess how foreign aid influences financial sector development and financial inclusion, this study analyzes the cases of Bangladesh, Rwanda, and Mozambique from 2012-22, focusing on both formal and informal financial intermediaries.

This paper analyzes macroeconomic data, financial sector indicators, aid disbursement trends, and governance metrics to empirically evaluate the relationship between aid and financial inclusion. Using sectoral disaggregation of aid flows and institutional effectiveness scores, the research traces the pathways through which aid channels into financial systems and whether it translates into higher private-sector credit, reduced borrowing constraints, improved banking efficiency, and sustainable microfinance growth. Aid flows are analyzed across three key subsectors: (1) Financial Policy and Administrative Management, (2) Formal Financial Intermediaries, and (3) Informal Financial Intermediaries, providing a granular assessment of how different forms of aid impact banking stability, microfinance participation, and credit accessibility across varying institutional environments.

The impact of foreign aid on financial inclusion depends on how well funding aligns with governments' priorities in existing policies. Bangladesh and Rwanda have seen stronger growth in microfinance, digital banking, and SME credit, while Mozambique has struggled due to weak institutions and economic instability. Policy aid has helped Rwanda strengthen financial regulations, but in Mozambique, even large inflows have failed to improve oversight. But aid to banks does not always increase lending. Bangladesh saw improved efficiency, but Rwanda and Mozambique still face high interest rate spreads, which could point to deeper financial inefficiencies. Finally, microfinance aid is most effective when paired with strong local policies. While Bangladesh and Rwanda sustain growth even as aid declines, Mozambique's financial access stalls once donor support fades, showing that without strong institutions, financial inclusion remains fragile.

Ultimately, this study contributes to the literature on international aid and development by identifying the conditions under which aid strengthens financial systems rather than acting as a temporary economic stimulus. To be truly effective, donor assistance must go beyond short-term interventions and support structural changes that allow financial sectors to grow independently.

Keywords:

Foreign aid, Financial inclusion, Microfinance, Governance, Banking efficiency

JEL Classification: F35, O16, G21

1 Introduction

Foreign aid plays a pivotal role in global development, with Official Development Assistance (ODA) being a primary component. The Organisation for Economic Co-operation and Development (OECD) defines ODA as government aid designed to promote the economic development and welfare of developing countries [Nations, 2024]. This assistance is primarily provided by members of the Development Assistance Committee (DAC), which includes 23 countries and the European Union. ODA encompasses financial resources transferred from wealthier nations to developing countries to combat poverty and support economic progress [Harcourt and Rivera, 2022].

Unlike private investments or humanitarian relief efforts, ODA is structured to create long-term improvements in governance, infrastructure, and financial access. A key objective of ODA is to enhance financial inclusion, which ensures that individuals and businesses have access to useful and affordable financial products and services that meet their needs, such as transactions, payments, savings, credit, and insurance, delivered in a responsible and sustainable way. Financial inclusion contributes to economic growth by stimulating entrepreneurship, increasing savings, and expanding investment opportunities [Grant, 2024].

For businesses, particularly small and medium-sized enterprises (SMEs), access to credit can mean the difference between stagnation and expansion. For individuals, financial inclusion provides a way to manage economic risks, build assets, and break cycles of poverty. As a result, many donor countries direct aid toward strengthening financial institutions, expanding microfinance programs, and supporting digital banking initiatives in developing economies.

2 Literature Review

The impact of bilateral foreign aid on economic development has been widely debated. Some studies find that aid can contribute to growth under favorable conditions like good governance and sound policies, while others report no consistent positive effect. A meta-review of 45 studies concluded that aid effectiveness varies across countries and contexts, with no clear advantage of bilateral over multilateral aid [Biscaye et al., 2016]. While aid can contribute to positive outcomes (such as poverty reduction or improved health and education), its success depends on alignment with sound policies, recipient capacity, and how aid is delivered.

One major challenge is aid fragmentation, where numerous donors fund many small, overlapping projects, straining recipient governments' administrative capacity [Gehring et al., 2017]. High fragmentation raises transaction costs and leads to bureaucratic inefficiencies, as each donor imposes separate reporting requirements [Moss et al., 2006]. Bilateral aid agencies also face criticism for excessive administrative overhead, which diverts funds from direct development impact. Another concern is aid dependency, where long-term reliance on foreign assistance weakens domestic resource mobilization and delays necessary reforms.

Given the discussions above, an important question is whether and how bilateral aid can directly promote financial inclusion. This is a relatively new and niche area of research at the intersection of aid effectiveness and financial sector development. Traditionally, aid effectiveness studies have focused on broad economic growth or social outcomes (health, education), while financial inclusion studies focus on domestic policy and market factors. The direct link between bilateral aid and improved financial access for individuals or businesses has not been a major focus in the literature.

In summary, while there is strong literature separately on aid effectiveness and on financial inclusion determinants, the intersection remains under-explored. The gap is starting to be filled by emerging studies (in the last 5 years), but many questions remain. This gap matters because, if aid can indeed be a lever for inclusion, donors and governments would want to design aid programs with that in mind. Conversely, if aid has little effect on inclusion, then inclusion must be driven primarily by domestic reforms and innovation.

This study addresses a key gap in existing research by examining whether bilateral aid contributes to financial inclusion in Bangladesh, Rwanda, and Mozambique. While aid effectiveness and financial sector development have been widely studied, little research directly connects foreign assistance to financial access and usage at the national level. By analyzing aid disbursements alongside key financial inclusion metrics, this study explores whether donor funding has expanded banking access, strengthened microfinance, or improved credit availability in these economies. It also considers whether aid flows align with financial sector needs and whether their effects are lasting. Through a combination of quantitative analysis and case study evaluation, this research provides a clearer understanding of how foreign aid influences financial inclusion to inform more effective development policies.

3 Research Methodology

This study uses a comparative case study methodology to examine how foreign aid shapes financial sector development in Bangladesh, Rwanda, and Mozambique. A case study method is useful because it allows for a detailed examination of complex relationships, especially when multiple economic and institutional factors influence financial outcomes. Since these countries have received different levels of aid and taken different approaches to financial inclusion, this method helps identify how and why aid has impacted financial sector growth in each case. There are two main types of case study approaches: intensive and extensive [Mills et al., 2010]. The intensive method focuses on a small number of cases and looks closely at their economic, policy, and institutional conditions. This is useful when studying cases that show distinct trends or unexpected outcomes. The extensive method, on the other hand, analyzes a larger number of cases to find broad patterns across different settings.

This study uses the intensive case study approach because it provides depth rather than breadth. Instead of looking at many countries at a surface level, it focuses on three distinct cases to understand how aid interacts with financial sector policies, banking systems, and financial inclusion strategies.

Seawright & Gerring outline different ways to select cases based on research goals. Table 1 summarizes these methods.

Table 1: Case Study Methods Description

Case Method	Description
Typical Case Method	Selects instances that demonstrate a consistent relationship across cases, closely aligning with an established model to explore underlying causal mechanisms.
Diverse Case Method	Covers a broad spectrum of variables to investigate various causal links and offers a more representative sample than other small-N methods.
Extreme Case Method	Focuses on cases with extreme values to gain insights into the effects of unusual conditions.
Deviant Case Method	Selects cases based on their unexpected deviation from a standard model, which can be useful for examining anomalies.
Influential Case Method	Ensures that influential cases do not distort overall conclusions.
Most Similar/Most Different Case Method	Uses comparative analysis to isolate specific variables' influence by controlling others and ultimately understand causal effects in varied contexts.

Source: Own work based on [Seawright and Gerring, 2008]

This study uses the Diverse Case Method because Bangladesh, Rwanda, and Mozambique represent three distinct financial environments. Bangladesh has built a financial sector centered on microfinance, Rwanda has focused on digital financial inclusion, and Mozambique has faced greater instability in financial sector development. By comparing these cases, the study can examine how different aid strategies influence financial growth and what factors strengthen or weaken aid effectiveness.

This case study method also works well because it combines quantitative analysis with in-depth country-level insights. Instead of just measuring aid flows, it looks at how aid has shaped financial policies, digital banking expansion, and access to credit. This makes it possible to identify patterns in aid effectiveness and understand the conditions that make financial sector aid more impactful.

This study uses quantitative trend and correlation analysis to examine how foreign aid impacts financial inclusion over time. This approach helps identify patterns in aid inflows and assess whether they are linked to changes in financial access. Rather than looking at individual case studies in isolation, this method analyzes numerical data across multiple years [Anthony, 2024]. Trend analysis is useful for detecting long-term shifts in financial development. By tracking financial inclusion indicators alongside aid disbursements, we can see whether these two factors move together. A steady increase in financial access following a rise in aid could indicate a connection, while inconsistencies or delays might suggest that other factors play a role. Correlation analysis builds on this by measuring the strength of the relationship between aid levels and financial access, helping to determine whether the association is strong, weak, or indirect. This approach is valuable because financial inclusion does not change instantly. Foreign aid directed toward financial services may take time to show measurable effects. By analyzing trends across several years, we can assess whether aid has contributed to long-term improvements or if its effects are short-lived.

A key advantage of this method is that it provides an objective way to explore financial development. While qualitative insights can explain why policies succeed or fail, quantitative analysis helps confirm whether aid inflows align with real improvements in financial services. However, correlation does not imply causation. If aid and financial access improve at the same time, it does not necessarily mean one caused the other. Other economic, social, or policy factors could also be responsible, so this study considers external influences that may affect the results.

This study focuses on Bangladesh, Rwanda, and Mozambique, three countries that receive significant foreign aid and have distinct financial landscapes. These cases provide insight into how aid influences financial inclusion under different conditions.

3.1 Country Selection

Bangladesh is widely recognized for its microfinance model, led by institutions like Grameen Bank and BRAC. These organizations provide small loans to people who lack access to traditional banks, particularly women, helping them start businesses and achieve financial independence [USA, 2023]. Over the years, donor aid has supported Bangladesh's microfinance sector, helping expand lending programs and financial education [Churchill et al., 2015].

Bangladesh also stands out for its progress in mobile banking. Services like bKash have transformed financial access, especially for those in rural areas. Studying Bangladesh helps assess how foreign aid supports microfinance expansion and whether it plays a role in improving access to credit and financial services.

Rwanda has taken a different approach, prioritizing digital finance as a tool for financial inclusion. The government actively promotes mobile banking and fintech innovation, aiming for 30% annual growth in the digital finance sector [Africa, 2024]. Aid has helped support these efforts, funding infrastructure improvements and digital payment systems.

Today, over 6 million people in Rwanda use mobile money services, demonstrating the success of this approach [of Rwanda, 2022]. This makes Rwanda an important case for studying whether aid targeted at digital financial inclusion leads to long-term economic access and participation.

Finally, Mozambique receives substantial aid aimed at expanding access to credit, particularly for small and medium-sized enterprises (SMEs) [Rhode and Stitteneder, 2020]. However, despite steady aid inflows, financial inclusion remains low, and many businesses still struggle to obtain loans.

3.2 Sources for Data Collection

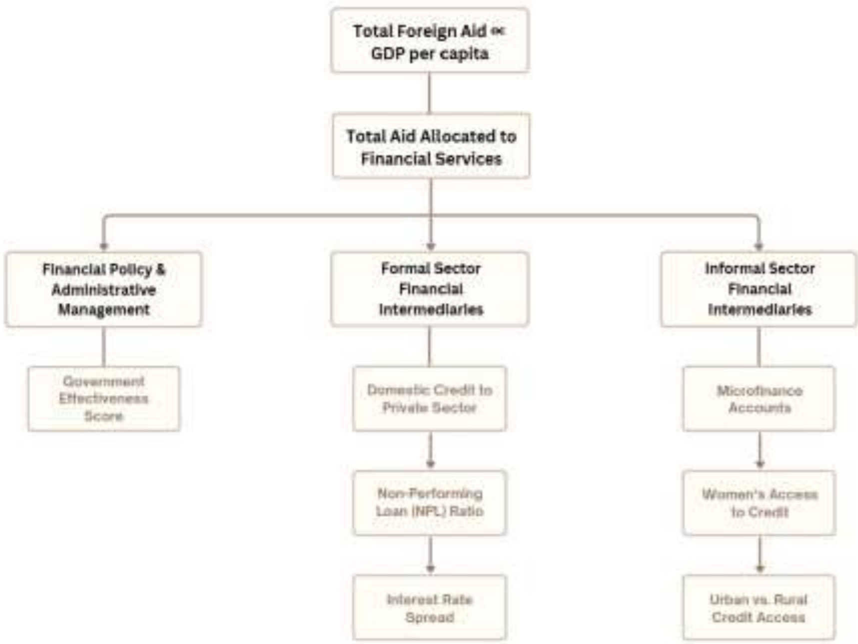
This study relies on publicly available data from international institutions to analyze the relationship between foreign aid and financial sector development. The data is drawn from multiple sources to ensure a comprehensive assessment, covering total aid inflows, financial inclusion metrics, and economic indicators. The variables and the data sources are presented in Table 2.

Table 2: Financial Sector Indicators and Data Sources

Metric	Description	Data Source	Years Used
Financial Policy and Administrative Management			
Metric	**Description**	**Data Source**	**Years Used**
Government Effectiveness Score	Measures the quality of public services, policy implementation, and governance effectiveness.	World Governance Indicators (World Bank)	2012–2022
Formal Sector Financial Intermediaries			
Metric	**Description**	**Data Source**	**Years Used**
Domestic Credit to the Private Sector by Banks (% of GDP)	Measures credit availability from commercial banks to businesses and individuals.	World Bank Global Financial Development Database	2012–2022
Non-Performing Loan (NPL) Ratio	Indicates the percentage of loans classified as non-performing, reflecting financial stability.	World Bank Global Financial Development Database	2012–2022
Interest Rate Spread	Difference between borrowing and lending rates, assessing banking efficiency.	World Bank Global Financial Development Database	2012–2022
Informal Sector Financial Intermediaries			
Metric	**Description**	**Data Source**	**Years Used**
Number of Active Microfinance Accounts per 1,000 Adults	Tracks the prevalence of microfinance lending, assessing outreach to underserved populations.	IMF Financial Access Survey	2012–2022
Percentage of Women with Access to Credit/Microloans	Measures the percentage of women borrowing from formal financial institutions or mobile banking.	Global Findex Database (World Bank)	2014, 2017, 2021
Credit Access in Rural vs. Urban Areas	Compares credit access between rural and urban populations.	Global Findex Database (World Bank)	2014, 2017, 2021

Source: Own work

Figure 1: Flowchart of Foreign Aid Allocation to Financial Services and Key Indicators



Source: Own work

This study breaks aid for financial services into three main areas: Financial Policy & Administrative Management, Formal Sector Financial Intermediaries, and Informal Sector Financial Intermediaries. Each of these categories is linked to key financial indicators to help understand whether aid has strengthened governance, improved private sector lending, or expanded financial access for underserved groups. Figure 1 lays out how these categories connect to the metrics used in this study.

Financial Policy & Administrative Management Aid in this category is intended to help governments strengthen the rules and systems that guide financial markets. When financial policies are well-designed and properly implemented, they can promote economic stability, prevent crises, and encourage responsible fiscal management. However, the relationship between aid and policy improvement is not always straightforward.

Formal Sector Financial Intermediaries Commercial banks and other formal financial institutions form the backbone of a country's financial system, serving as the primary link between savings and investment. Aid directed toward this sector is often intended to expand lending opportunities, strengthen banking institutions, and improve overall financial stability.

Informal Sector Financial Intermediaries Not everyone has access to traditional banks, especially in developing economies where large portions of the population operate outside formal financial systems. This is where informal financial intermediaries, like microfinance institutions, come in. Aid directed at this sector is designed to improve financial inclusion, ensuring that underserved populations such as rural communities and women have access to credit and banking services.

With the methodology established, the next step is to analyze the results and assess the relationship between foreign aid and financial sector development through case study analysis and quantitative trend correlation.

4 Results

Foreign aid has been a key source of funding for low- and middle-income countries, helping to strengthen financial systems and support economic stability. This section looks at how total aid has been distributed in Bangladesh, Rwanda, and Mozambique over the past decade. It examines trends in funding and how these inflows may have shaped financial sector growth and overall economic conditions.

Trends in Aid Flows

Aid patterns in each country have changed over time, shaped by donor decisions, economic conditions, and financial sector priorities.

Bangladesh has consistently received large amounts of aid, much of it directed toward microfinance, banking access, and financial reforms. The country's success in expanding mobile banking and small-scale lending may have made it a priority for donors looking to support financial inclusion.

Rwanda's aid has grown steadily, with much of the funding supporting digital banking and financial technology. As the country has worked to build a cashless economy, donors may have seen it as an opportunity to invest in technology-driven financial access.

Mozambique's aid has been less stable, with funding increasing and decreasing at different times. Economic uncertainty, changes in governance, or shifts in global aid priorities may explain these fluctuations. Some aid may have been tied to financial reforms or economic recovery programs, affecting when and how much funding was available.

4.1 Comparing Total Aid and GDP per Capita

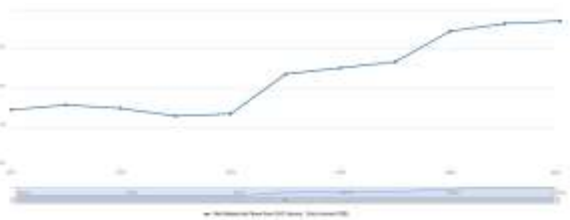
4.1.1 Bangladesh

Both foreign aid and GDP per capita in Bangladesh have increased, raising the question of how closely the two are connected. Figure 2 compares the trends in total aid received by Bangladesh alongside its GDP per capita. In 2012, total aid stood at $1.44 billion, while GDP per capita was $859.68. By 2022, aid had more than doubled to $3.74 billion, and GDP per capita had risen to $2,716.49.

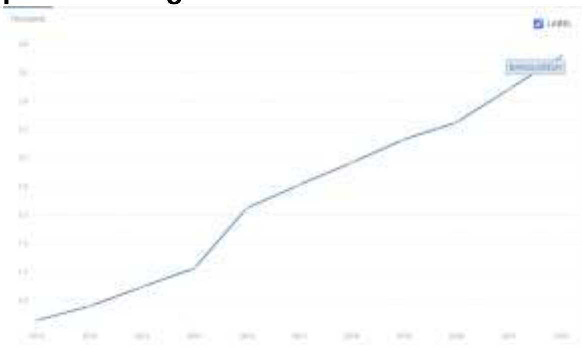
The most striking shift happened between 2016 and 2021, when aid jumped from $1.33 billion to $3.66 billion, while GDP per capita grew from $1,649.28 to $2,482.85. This overlap suggests that increased funding may have supported key financial sector improvements, making it easier for individuals and businesses to access capital. Bangladesh's well-established microfinance institutions and mobile banking networks likely played a role in translating aid inflows into real economic activity, allowing more people to borrow, invest, and expand businesses.

However, the connection between aid and economic growth is rarely straightforward. Aid may have strengthened financial inclusion and SME development, but other factors such as domestic policies, labor markets, and private investment also shaped GDP growth. While Bangladesh's upward trajectory suggests a productive use of foreign assistance, understanding its full impact requires looking beyond just the numbers.

Figure 2: Trends in Total Aid and GDP per Capita for Bangladesh



(a) Total Aid to Bangladesh



(b) GDP per Capita in Bangladesh

Source: Data from Bank, 2025

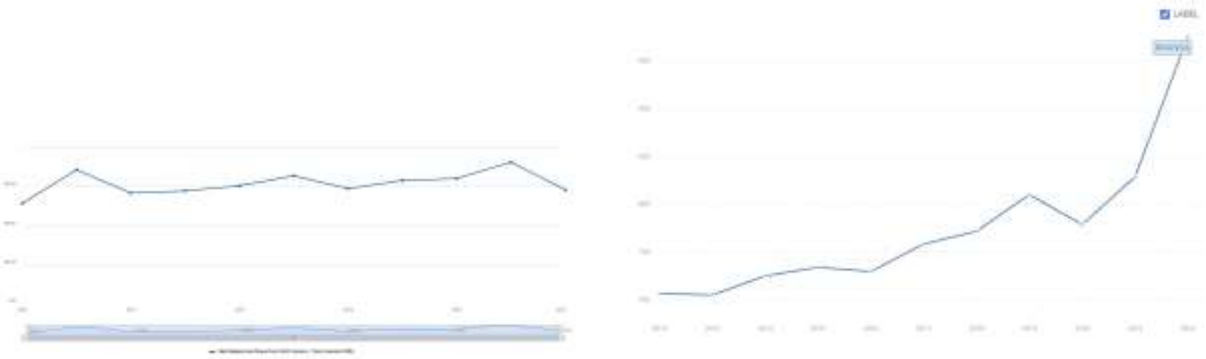
4.1.2 Rwanda

Rwanda has seen steady economic growth alongside stable aid inflows, raising the question of how effectively foreign assistance has supported its financial sector. Figure 3 presents the trajectory of total aid inflows to Rwanda alongside changes in GDP per capita. In 2012, total aid stood at $514 million, with GDP per capita at $706.81. By 2021, aid had increased to $726 million, while GDP per capita rose to $828.83.

One of the most noticeable shifts occurred between 2018 and 2021, a period marked by Rwanda's push for digital financial inclusion, mobile banking, and FinTech expansion. The overlap between rising aid and Rwanda's focus on financial technology suggests that donor funding may have played a role in scaling up banking access, digital payment systems, and financial literacy programs. While GDP per capita dipped slightly in 2020 ($778.70), it rebounded in 2022 ($975.47), reinforcing the idea that Rwanda's financial sector has remained resilient despite short-term fluctuations.

Although aid may have supported financial sector growth, other factors like domestic policies and private investment also shaped Rwanda's economic trajectory. The steady rise in per capita income suggests that donor assistance complemented these efforts, but the long-term impact depends on how well aid-funded initiatives integrate into Rwanda's broader financial system.

Figure 3: Trends in Total Aid and GDP per Capita for Rwanda



(a) Total Aid to Rwanda **(b) GDP per Capita in Rwanda**

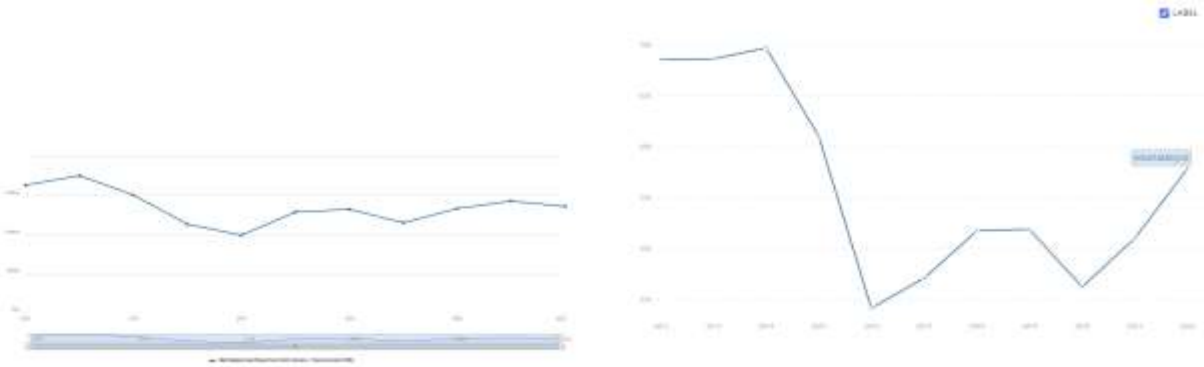
Source: Data from Bank, 2025

4.1.3 Mozambique

Mozambique's economic growth has not followed a clear pattern despite consistent aid inflows. In Figure 4, in 2012, total aid stood at $1.63 billion, with GDP per capita at $685.69. By 2016, GDP per capita had fallen sharply to $441.49, even though aid remained at $989 million. Aid peaked again in 2018 at $1.32 billion, but GDP per capita barely changed, hovering around $517.50. Even as aid increased to $1.42 billion in 2021, GDP per capita remained low at $509.90.

Unlike Bangladesh and Rwanda, where aid appears to have contributed to financial sector expansion and economic growth, Mozambique's economy has struggled to convert external funding into sustained progress. Several factors could explain this weak connection. Macroeconomic instability, governance issues, or inefficiencies in aid utilization may have prevented these funds from making a lasting impact. The fluctuations in GDP per capita, despite relatively steady aid levels, suggest that broader economic challenges or external shocks have disrupted financial sector development.

Figure 4: Trends in Total Aid and GDP per Capita for Mozambique



(a) Total Aid to Mozambique **(b) GDP per Capita in Mozambique**

Source: Data from Bank, 2025

If large amounts of aid have not led to strong economic growth, where are the bottlenecks? Institutional weaknesses, poor financial oversight, or economic volatility may have limited the ability of aid-funded initiatives to generate long-term benefits. While foreign assistance remains an important source of funding, its effectiveness depends on how well financial systems, policies, and governance structures can support stable and inclusive economic growth.

Overall, Bangladesh demonstrates a clear upward trajectory where increased aid appears to have supported financial inclusion and economic expansion. Mozambique shows inconsistencies in aid effectiveness, as aid inflows fail to drive sustained GDP per capita growth. Rwanda presents a steady correlation, with aid contributing to gradual financial sector development and digital inclusion.

While the overall relationship between foreign aid and economic growth varies across countries, aid targeted at financial services may provide a more direct channel for improving financial inclusion and economic access. To examine this, the next section analyzes how aid directed toward financial services has been distributed in Bangladesh, Rwanda, and Mozambique, considering its alignment with financial sector needs.

This analysis then moves into three major subsectors where aid could influence financial outcomes: **Financial Policy and Administrative Management**, which focuses on governance and financial sector oversight, assessed using the **Government Effectiveness Score**; **Formal Sector Financial Intermediaries**, covering commercial banking and private sector credit, measured through **Domestic Credit to the Private Sector by Banks (% of GDP), Non-Performing Loan (NPL) Ratio, and Interest Rate Spread**; and **Informal Sector Financial Intermediaries**, which examines financial access for underserved populations, assessed by the **Number of Active Microfinance Accounts per 1,000 Adults, Women's Access to Credit in Bangladesh, and Credit Access in Rural vs. Urban Bangladesh**. By linking aid flows to sector-specific financial metrics, this section explores whether donor funding has strengthened financial infrastructure, expanded lending opportunities, and improved financial inclusion in these economies.

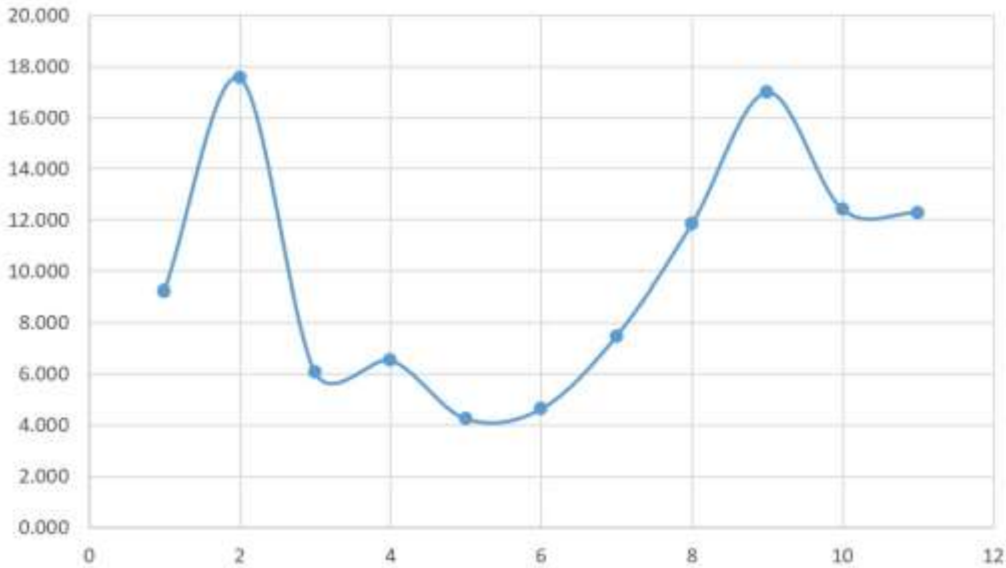
4.2 Aid for Financial Services

4.2.1 Bangladesh

Funding for Bangladesh's financial sector has fluctuated over the past decade, with aid levels rising and falling at different points. Figure 5 shows how aid to banking services in Bangladesh has changed over time. The most noticeable spike occurred in 2013, when aid for financial services reached $17.5 million, before dropping sharply in the following years. A second major increase came in 2019, when aid rose to $11.8 million, suggesting a renewed focus on financial sector initiatives. However, these surges were not part of a steady upward trend. Instead, aid levels declined in 2014 and 2016, pointing to possible shifts in donor priorities, changes in policy direction, or the completion of specific projects.

The more important question is whether these fluctuations had a measurable impact on financial inclusion. A rise in aid does not automatically mean stronger financial access or more effective banking services.

Figure 5: Trends in Aid Allocation to Banking Services in Bangladesh



Source: Own work, data from for Economic Co-operation and Development, 2025

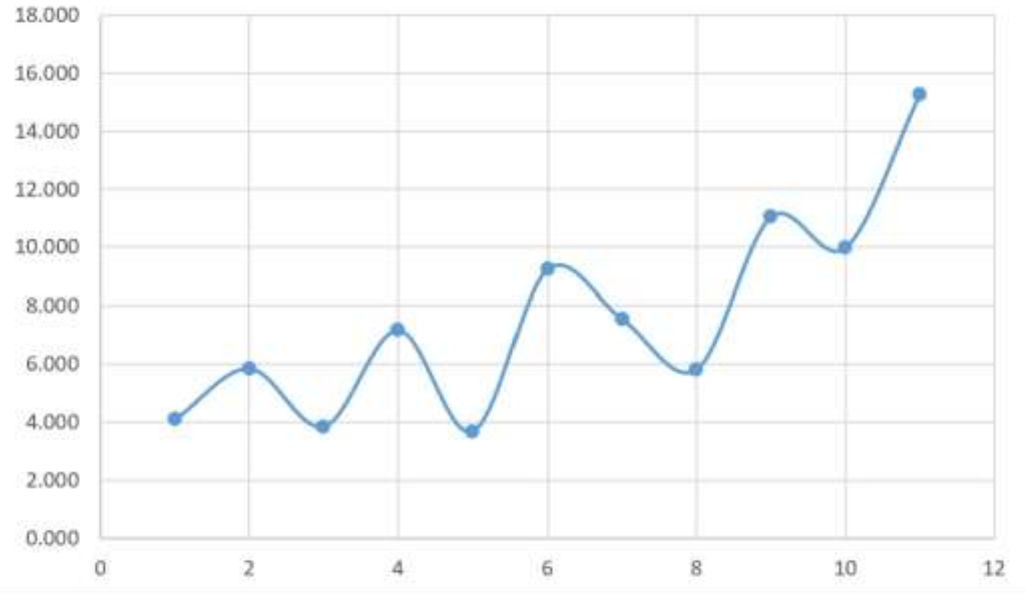
4.2.2 Rwanda

Figure 6 tracks the changes in aid directed toward banking services in Rwanda over the years as donor priorities and financial sector needs evolved. Between 2012 and 2014, aid ranged from $3.8 million to $5.8 million, suggesting a phase of early investments in financial infrastructure and reforms.

In 2015, aid increased to $7.16 million, showing stronger external support. Another increase came in 2017, when funding reached $9.25 million. The pattern of rising and falling aid suggests that funding was tied to specific projects, with periods of investment followed by project completion or shifts in focus. Between 2018 and 2019, aid fell slightly to between $5.8

million and $7.5 million, before rising again in 2020 to $11.04 million. By 2022, aid had reached a record high of $15.25 million.

Figure 6: Trends in Aid Allocation to Banking Services in Rwanda



Source: Own work, data from for Economic Co-operation and Development, 2025

The recent increase in aid suggests a stronger push for financial inclusion and digital financial services, areas where Rwanda has made significant progress. The key question is whether this funding has led to real improvements in access to financial services.

4.2.3 Mozambique

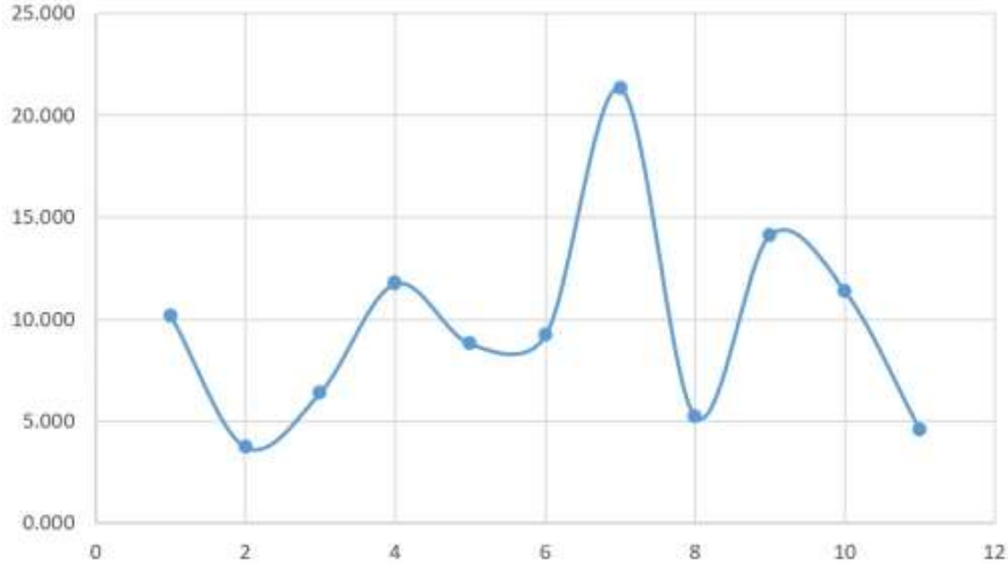
Aid to Mozambique's financial sector has fluctuated over the years due to changing donor priorities, economic policies, and macroeconomic conditions. Between 2012 and 2014, aid ranged from $3.7 million to $10.1 million, likely supporting basic financial infrastructure and financial inclusion programs. In 2015, aid rose to $11.76 million, suggesting a targeted push for microfinance or banking sector reforms. Figure 7 illustrates how aid to banking services in Mozambique has fluctuated over time.

Between 2016 and 2018, aid remained stable at around $8.8 to $9.2 million before surging to $21.3 million in 2018. This sharp increase may have funded SME lending, mobile banking, or financial sector digitization. However, in 2019, aid dropped to just $5.2 million, possibly due to project completions, donor shifts, or economic constraints.

In 2020 and 2021, aid rebounded to $14.1 million and $11.3 million, likely in response to the COVID-19 pandemic, supporting financial relief programs, SME credit guarantees, and digital financial solutions. By 2022, aid fell again to $4.6 million, marking another shift away from direct financial sector support.

These fluctuations make long-term financial sector development difficult. While large aid injections may have helped financial inclusion efforts, the inconsistent flow of funding raises questions about their lasting impact.

Figure 7: Trends in Aid Allocation to Banking Services in Mozambique

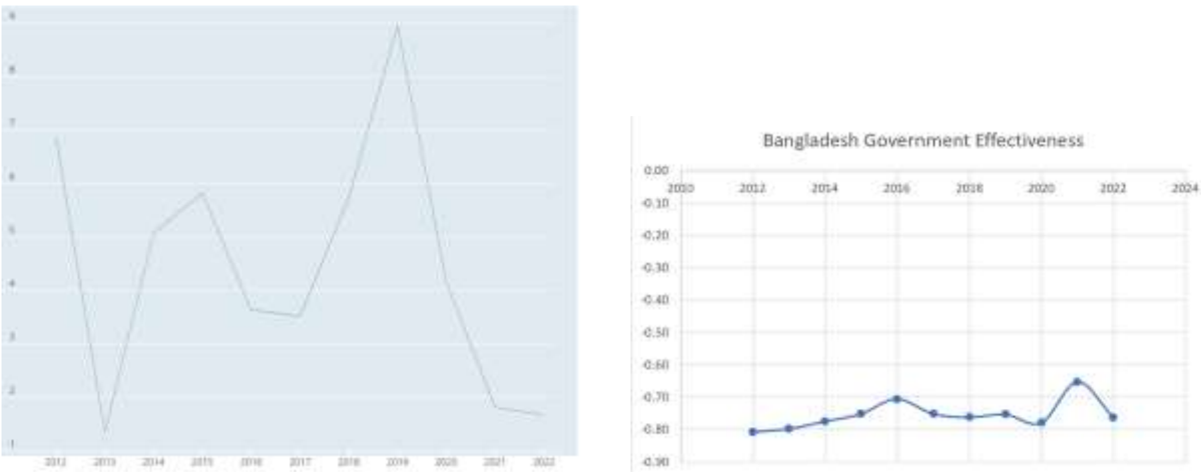


Source: Own work, data from for Economic Co-operation and Development, 2025

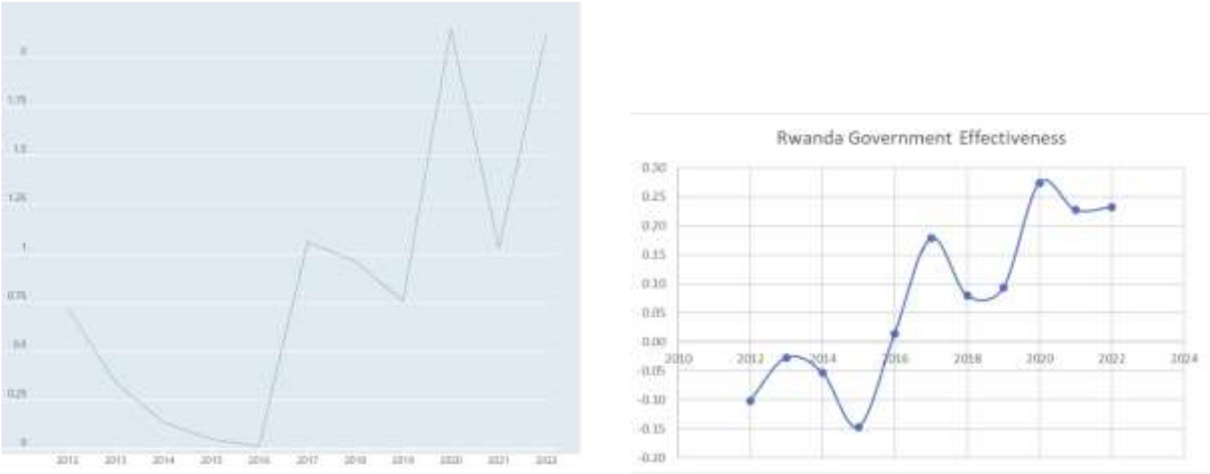
4.3 Financial Policy and Administrative Management

While aid directed at banking services focuses on expanding access to credit and improving financial infrastructure, effective financial sector development also depends on strong institutions and sound governance. Financial policy and administrative management makes sure that funding is allocated efficiently and regulatory frameworks support long-term growth. To assess whether aid contributes to stronger financial governance, this section examines aid allocated to financial policy and administrative management and its relationship with government effectiveness scores across countries.

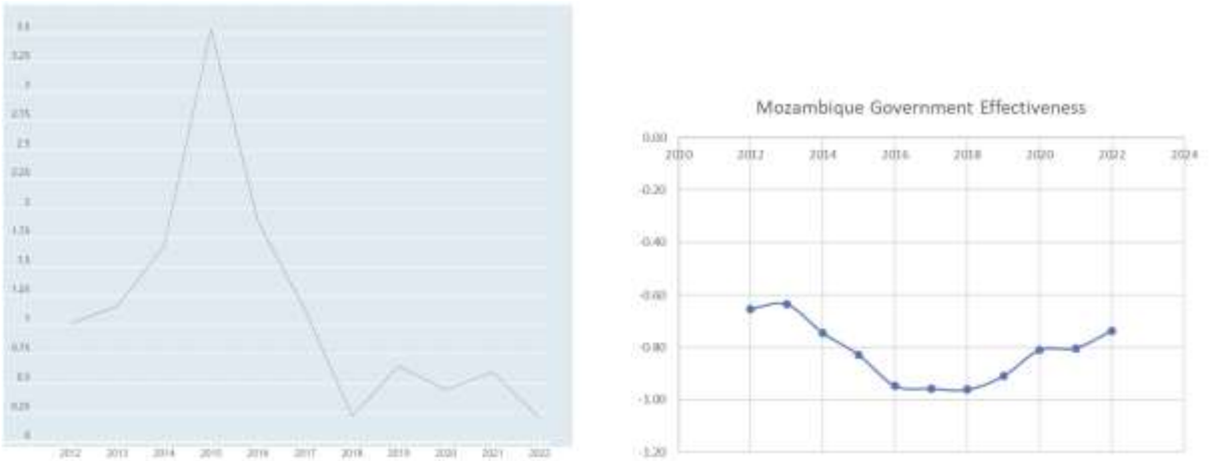
Figure 8: Aid Allocation to Financial Policy and Administrative Management and Government Effectiveness Scores Across Countries



(a) Bangladesh



(b) Rwanda



(c) Mozambique

Source: OECD Data Explorer and Worldwide Governance Indicators [for Economic Co-operation and Development, 2025, Bank, 2025]

4.3.1 Bangladesh

Aid for financial policy and administrative management has helped Bangladesh strengthen economic governance, improve regulations, and enhance financial oversight. External support has played a key role in fiscal policy reforms, central banking capacity building, and regulatory modernization as the country's financial sector evolves. Figure 8a shows trends in aid to financial policy and administrative management in Bangladesh alongside changes in government effectiveness scores.

Over the past decade, aid to this subsector has fluctuated due to shifting donor priorities and project-based funding. In 2012, Bangladesh received $6.88 million, but this dropped sharply to $1.33 million in 2013, likely due to the completion of financial governance programs or a shift in donor focus. Aid rebounded in 2014 and 2015, reaching $5.06 million and $5.82 million, showing renewed donor engagement. However, funding declined again in 2016 and 2017, settling at $3.63 million and $3.51 million, suggesting that most support was short-term and tied to specific reforms rather than continuous institutional funding.

In 2019, aid peaked at $8.96 million, likely due to large-scale financial sector reforms. However, from 2020 onward, aid declined, dropping to $4.14 million in 2020, $1.81 million in 2021, and $1.67 million in 2022. This decline was likely caused by donor funding shifting toward pandemic relief and economic recovery efforts.

Government Effectiveness Score

Government effectiveness measures how well a country implements policies, manages administration, and delivers public services. In Bangladesh, scores have remained negative over the past decade, showing ongoing governance challenges. However, the data shows fluctuations that may be linked to financial policy aid.

Between 2012 and 2015, the government effectiveness score improved slightly from -0.81 to -0.75. While still negative, this trend suggests some governance improvements, possibly supported by aid for financial policy and administrative reforms. During this time, aid levels fluctuated but remained relatively stable, which may have contributed to gradual institutional capacity building. From 2016 to 2019, scores stayed between -0.71 and -0.76, showing little change. Despite continued aid disbursements, bureaucratic inefficiencies or institutional inertia may have prevented reforms from making a lasting impact.

In 2020, the score improved sharply to -0.65, the highest in the dataset. This improvement came one year after financial policy aid peaked at $8.96 million in 2019, suggesting that reforms funded by aid take time to show results. However, by 2021, the score dropped back to -0.76, aligning with a sharp reduction in aid. This suggests that governance improvements may not have been sustained without continued external support. The relationship between financial policy aid and government effectiveness appears complex and inconsistent, influenced by both funding levels and structural constraints.

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4.3.2 Rwanda

Aid for Rwanda’s financial policy sector has fluctuated over the years. Figure 8b presents the relationship between aid for financial policy and administrative management in Rwanda and its government effectiveness over time. Between 2012 and 2015, funding dropped from $0.718 million to nearly zero, likely due to shifting donor priorities or completed reforms.

In 2016, aid surged, reaching $2.14 million by 2020, possibly in response to new economic challenges, governance reforms, and efforts to improve public financial management. This period aligned with Rwanda’s push for financial oversight and digital governance. After 2020, aid declined slightly but remained higher than before, stabilizing at $1.03 million in 2021 before rising again to $2.13 million in 2022. Continued donor support suggests ongoing financial reforms and digital financial expansion.

While aid spikes support financial sector reforms, long-term impact depends on whether these funds lead to lasting institutional improvements.

Government Effectiveness

Rwanda’s ability to implement policies and manage institutions has improved over time, with shifts in financial policy aid playing a role. From 2012 to 2015, effectiveness scores remained negative (-0.10 to -0.15), pointing to challenges in public administration and regulatory enforcement. This period saw a sharp decline in aid, which may have limited progress in governance reforms.

A turning point came in 2016 when the effectiveness score turned positive (0.01). This improvement coincided with an increase in financial policy aid, which rose to over $1 million in 2017. Between 2017 and 2020, scores continued to rise, reaching a peak of 0.27 in 2020, the highest in the dataset. This period matched the peak in financial policy aid ($2.14 million in 2020), suggesting that donor-funded programs helped strengthen financial management, regulatory oversight, and institutional capacity.

After 2020, effectiveness scores declined slightly to 0.23, despite aid remaining relatively high. Early improvements may not have been fully sustainable, as external challenges like economic shifts and post-pandemic disruptions could have slowed progress. While financial policy aid contributed to short-term governance improvements, lasting reforms may require more consistent investment and strong domestic policies.

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4.3.3 Mozambique

Aid to Mozambique's financial policy sector has varied over the years, shaped by shifting donor priorities and governance initiatives. Figure 8c graphs the connection between aid to financial policy and administrative management in Mozambique with shifts in government effectiveness scores. Between 2012 and 2014, funding remained low but gradually increased, suggesting early investments in capacity-building and fiscal planning.

In 2015, aid surged to its highest level, likely supporting major financial reforms, regulatory changes, or fiscal management projects. However, this increase was short-lived, as aid dropped sharply between 2016 and 2018, reaching nearly zero by 2017. This decline suggests that a large reform program had ended or donor priorities had shifted elsewhere. Between 2019 and 2022, aid remained low and inconsistent, with no signs of another large intervention. Support appears to have shifted to smaller, project-based initiatives rather than sustained governance investment.

The 2015 aid surge was a major turning point, but the lack of continued funding raises concerns about whether these reforms had lasting effects. The next sections will examine government effectiveness and domestic borrowing trends to assess the long-term impact.

Government Effectiveness

Mozambique has struggled with weak governance, administrative inefficiencies, and institutional challenges for over a decade. In 2012 and 2013, effectiveness scores were stable at -0.65 and -0.64, but a decline followed in 2014 and 2015, dropping to -0.74 and -0.83. This suggests worsening efficiency, possibly due to political instability, fiscal mismanagement, or stalled reforms. The lowest point came between 2015 and 2017, with scores reaching -0.96, even as aid for financial policy surged in 2015. Despite donor support, corruption, weak institutions, and poor policy execution prevented real improvements.

Between 2016 and 2019, scores remained low, showing that financial aid alone was not enough to strengthen governance. A slight recovery began in 2018, with effectiveness improving to 0.81 by 2020 and -0.74 in 2022. While this suggests some stabilization, progress remained limited and slow. The fact that scores did not collapse after 2018, despite lower aid levels, suggests that domestic policy reforms and macroeconomic stabilization played a bigger role than external funding.

The 2015 aid surge did not lead to immediate improvements, likely due to delays in implementation or inefficient use of funds. Long-term governance progress in Mozambique will require more than financial aid—it depends on structural reforms, accountability, and stronger institutions.

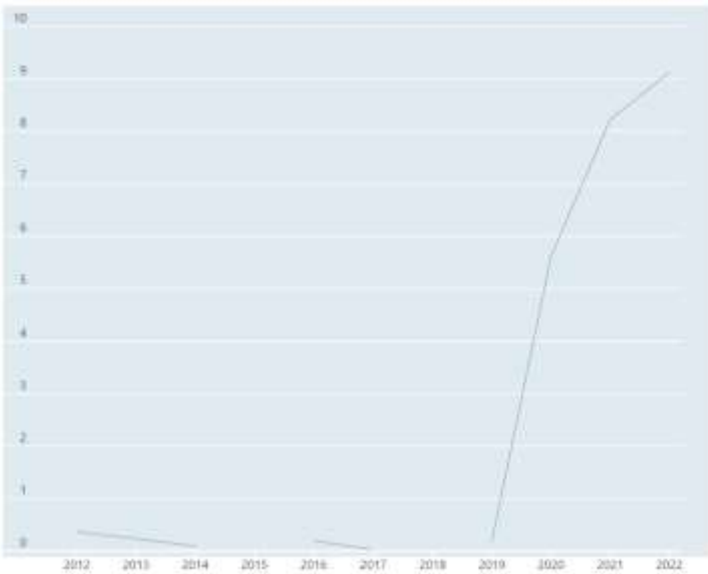
4.4 Formal Sector Financial Intermediaries

Strengthening financial governance through policy and administrative reforms is certainly important for creating a stable economic environment, but effective financial development also requires well-functioning banking institutions that can facilitate credit and investment. Formal sector financial intermediaries, such as commercial banks and regulated lending institutions, translate financial policy into real economic activity. To evaluate whether aid has helped expand private sector lending and improve banking efficiency, the next section examines key financial indicators, including domestic credit to the private sector, non-performing loan ratios, and interest rate spreads.

4.4.1 Bangladesh

Between 2012 and 2018, aid to Bangladesh's formal financial sector remained low, never exceeding 0.364 million USD. This suggests that financial sector development was not a major donor focus during this period. Figure 9 shows how aid to formal sector financial intermediaries in Bangladesh has changed over time.

Figure 9: Aid Disbursement to Formal Sector Financial Intermediaries in Bangladesh



Source: Data from for Economic Co-operation and Development, 2025

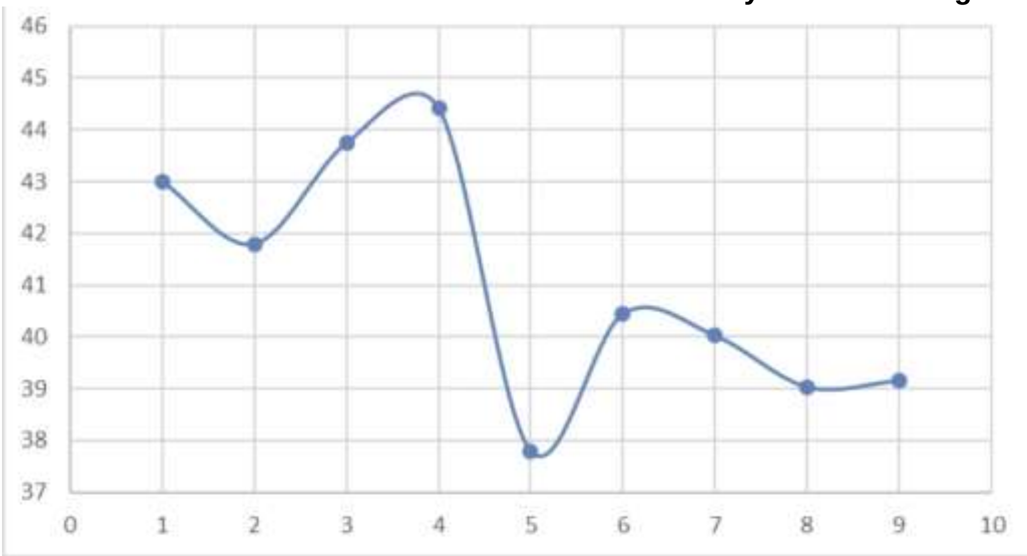
In 2019, aid increased sharply, reaching $5.6 million in 2020, $8.2 million in 2021, and peaking at $9.1 million in 2022. This shift likely aimed to strengthen the banking system, improve financial stability, and expand access to credit. The timing aligns with broader financial reforms and global efforts to support financial resilience, possibly linked to the COVID-19 pandemic. Donors may have also focused on digital banking, SME financing, or policy-driven banking reforms.

Despite this surge, Bangladesh's financial sector relied more on domestic policies and private sector growth than external funding in earlier years. The impact of this aid will be clearer when examined alongside domestic credit levels, banking efficiency, and loan performance, which will show whether it led to real improvements in the financial system.

Domestic Credit to the Private Sector by Banks (% of GDP)

Figure 10 tracks the changes in domestic credit available to the private sector in Bangladesh over the decade. Between 2012 and 2015, private sector credit remained stable, peaking at 44.4 percent of GDP in 2015. In 2016, credit dropped below 38 percent, indicating a slowdown in lending, possibly due to regulatory tightening, risk-averse banking policies, or economic downturns. From 2017 to 2020, credit levels remained lower, fluctuating around 39–40 percent of GDP.

Figure 10: Trends in Domestic Credit to the Private Sector by Banks in Bangladesh



Source: Data from Bank, 2025

The surge in aid to formal financial intermediaries from 2019 onward did not immediately lead to increased domestic credit. This suggests that aid was likely directed toward long-term reforms, digital banking, or regulatory improvements, rather than immediate liquidity support. Such structural changes take time to influence lending patterns.

Since aid remained low before 2019, it likely had little role in the 2016 decline. However, post-2019 funding may help improve lending conditions over time if used for credit guarantees, liquidity support, or banking reforms. Future data will determine whether these donor-backed financial sector improvements lead to greater access to credit for businesses and individuals.

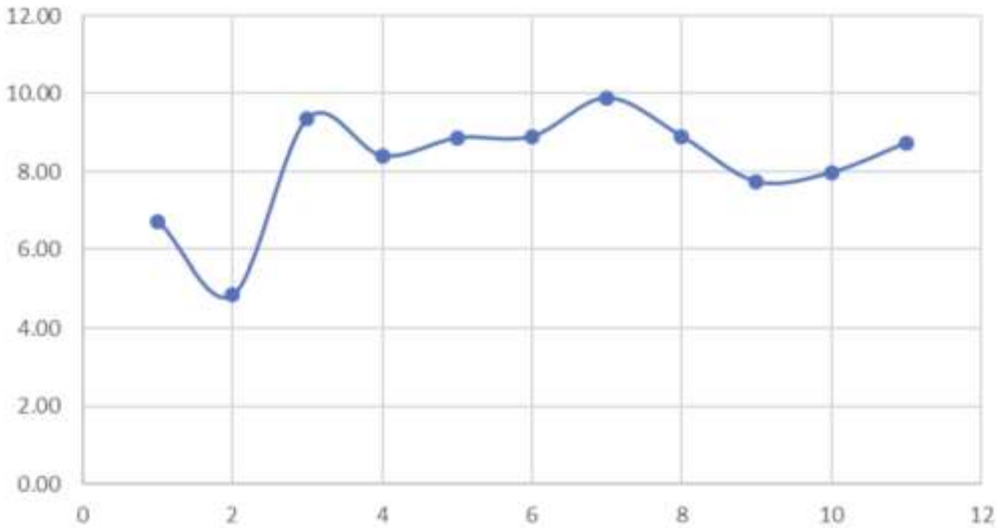
Non-Performing Loan (NPL) Ratio

Bangladesh's NPL ratio has fluctuated greatly, showing instability in banking sector asset quality. Between 2012 and 2013, the ratio fell from 6.72 percent to 4.84 percent, possibly due to better loan repayment, stricter lending policies, or improved risk assessment. However, by

2014 and 2015, it surged to 9.37 percent and 8.40 percent, indicating rising corporate defaults, economic downturns, or weak risk management. Figure 11 shows changes in Bangladesh's non-performing loan (NPL) ratio, which reflects these trends in banking sector stability.

From 2016 to 2019, the NPL ratio remained high, between 8.86 percent and 9.89 percent, suggesting continued difficulties in loan recovery and systemic inefficiencies. A temporary decline in 2020 and 2021 (7.74 percent and 7.97 percent) may have resulted from bank restructuring, economic stabilization, or government interventions. However, the ratio rose again to 8.72 percent in 2022, showing that loan performance challenges persist.

Figure 11: Trends in Non-Performing Loan (NPL) Ratio in Bangladesh



Source: Data from Bank, 2025

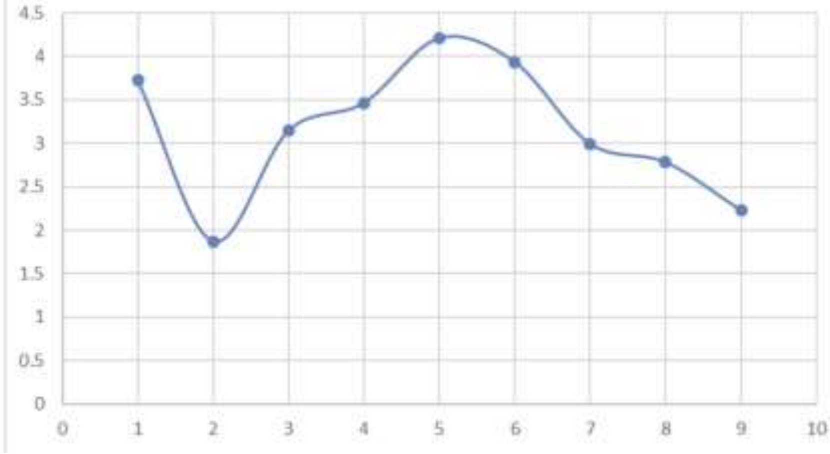
The surge in aid to financial intermediaries post-2019 did not lead to a significant drop in NPLs, suggesting that aid focused on expanding financial access rather than improving loan recovery or risk management. Persistent high NPL levels point to deeper systemic issues, such as inefficient debt recovery, regulatory loopholes, or weak financial discipline. Without stronger governance, stricter enforcement, and regulatory reforms, high NPLs may continue to threaten banking sector stability.

Interest Rate Spread

The interest rate spread, which measures the gap between lending and deposit rates, has fluctuated due to banking competition, policy changes, and market conditions. In Figure 12, between 2012 and 2013, the spread fell from 3.73 to 1.87 percentage points, possibly due to increased competition, regulatory actions, or lower lending risk. A narrower spread often means banks are either reducing lending rates to attract borrowers or increasing deposit rates to encourage savings.

Between 2014 and 2016, the spread widened, peaking at 4.21 percentage points, suggesting banks regained pricing power due to higher credit demand, reduced competition, or shifts in monetary policy. A widening spread can indicate inefficiencies, higher operational costs, or monopolistic banking behavior. From 2017 to 2020, the spread declined steadily, reaching 2.22 percentage points, likely due to better banking efficiency, regulatory interventions, and increased competition. This period aligned with efforts to deepen financial markets and improve financial sector governance.

Figure 12: Trends in Interest Rate Spread in Bangladesh



Source: Data from Bank, 2025

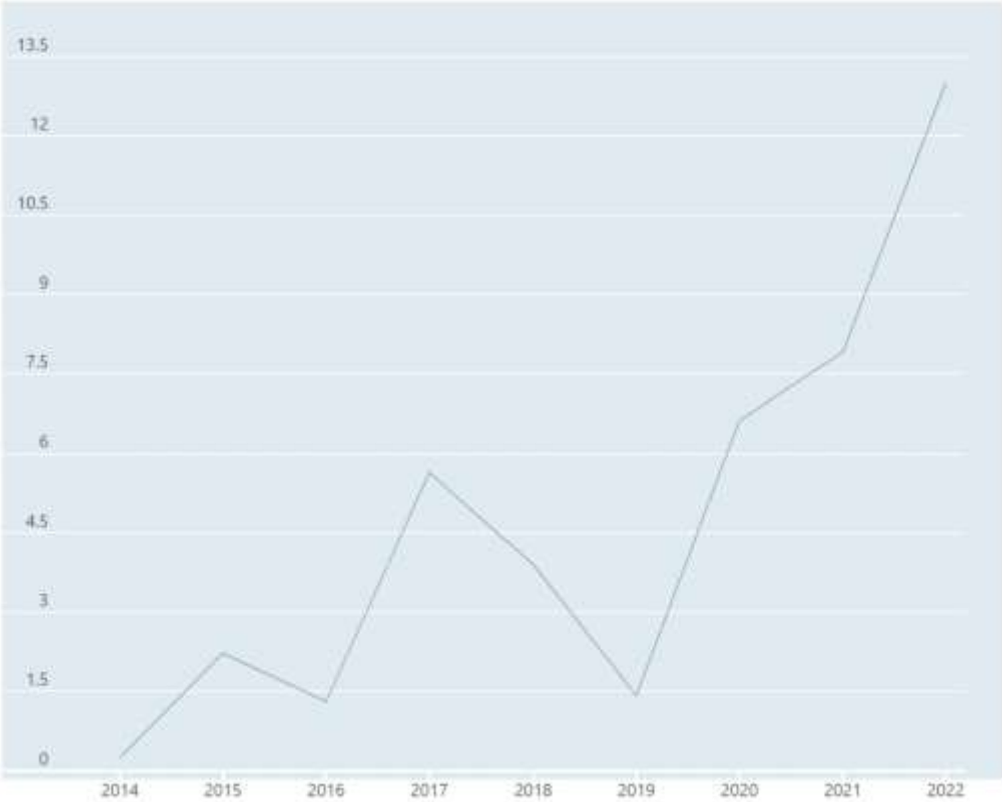
The post-2019 surge in aid to financial intermediaries coincided with the continued decline in spreads. This suggests donor support may have helped by boosting competition, strengthening regulation, or improving access to credit. Aid may have also contributed to lower risk premiums and a more stable credit market, leading to a balanced lending environment and reduced spreads.

4.4.2 Rwanda

Aid to Rwanda's financial sector gradually increased, with moderate fluctuations from 2014 to 2018 and a temporary peak in 2017. The dip in 2018–2019 suggests project completions or shifting donor priorities.

Figure 13 portrays a sharp rise in aid from 2020 onward, peaking in 2022, likely supporting financial stability, credit expansion, and economic recovery post-COVID-19. Funding may have strengthened banks, regulations, and digital banking infrastructure to boost private-sector lending and financial inclusion. While aid aligns with Rwanda's financial sector goals, its impact on credit availability, banking efficiency, and sector resilience requires further analysis.

Figure 13: Aid Disbursement to Formal Sector Financial Intermediaries in Rwanda



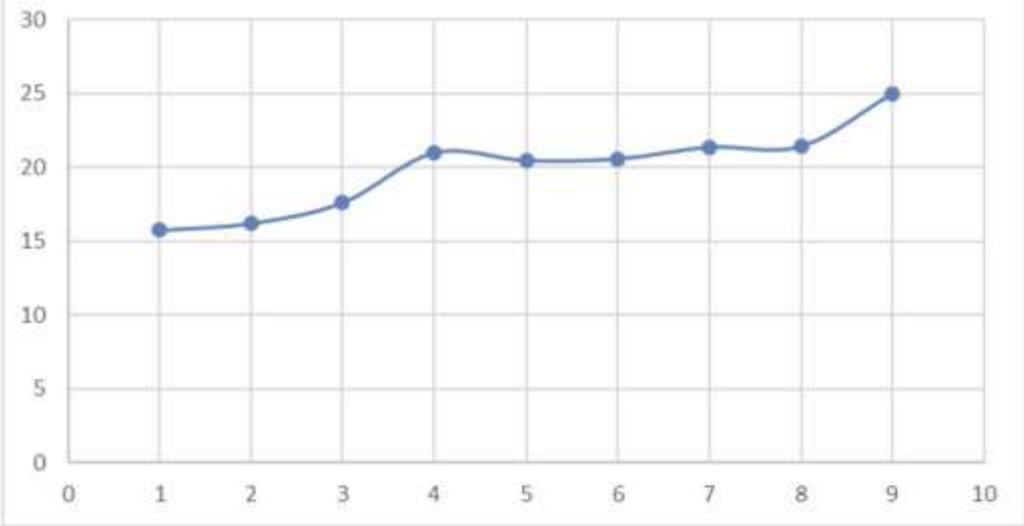
Source: Data from for Economic Co-operation and Development, 2025

Domestic Credit to the Private Sector by Banks (% of GDP)

Private sector credit in Rwanda grew steadily from 2012 to 2015, as shown in Figure 14, rising from 15.76 percent to 21.01 percent of GDP, likely due to better banking infrastructure and policy support. Between 2016 and 2019, growth stabilized at around 20–21 percent, which could point to a period of consolidation in financial intermediation. A sharp increase to 25.03 percent in 2020 coincided with a rise in aid to financial intermediaries, suggesting that external funding may have boosted banking liquidity, strengthened risk management, or eased credit access. Aid from 2019 to 2022 may have helped banks expand lending, increase capital reserves, or launch credit guarantee programs.

However, credit growth did not match the aid surge. Regulatory limits, private sector absorption capacity, and macroeconomic factors like inflation may have slowed lending expansion. While aid aligned with credit growth, institutional and economic conditions likely moderated its impact. Future trends will determine if Rwanda's financial sector can sustain credit expansion without stability risks.

Figure 14: Trends in Domestic Credit to the Private Sector in Rwanda



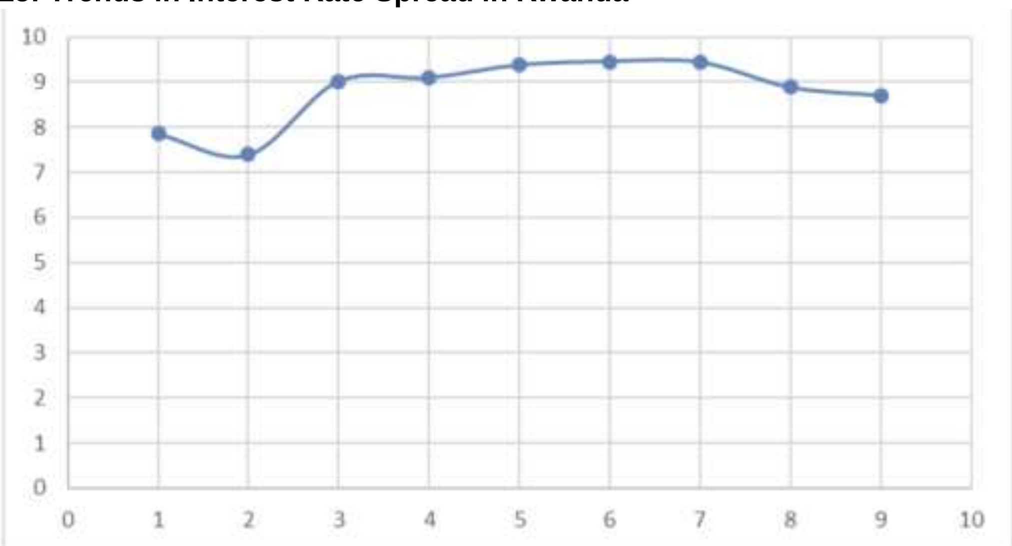
Source: Own work, data from Bank, 2025

Interest Rate Spread

Bank lending costs in Rwanda have remained consistently high. Figure 15 determines that the interest rate spread starts at 8 percent in 2012, rises above 9 percent by 2015, and stays elevated for several years. This suggests limited competition, high operational costs, or cautious risk management, leading to banks maintaining a large gap between lending and deposit rates. A persistently high spread often indicates inefficiencies, where borrowers face high costs while depositors earn low returns.

Between 2019 and 2021, the spread gradually declined, coinciding with a surge in aid to financial intermediaries. Donor funding may have improved banking efficiency, strengthened regulations, or enhanced risk assessment, allowing for slightly lower lending rates or better deposit terms. Aid could have also supported capital buffers, credit expansion, or infrastructure improvements, indirectly affecting interest rate behavior.

Figure 15: Trends in Interest Rate Spread in Rwanda



Source: Own work, data from Bank, 2025

Despite this decline, the spread remained high, signaling ongoing structural issues such as banking sector concentration, high credit risk, and weak competition. If aid focused more on institutional strengthening rather than direct lending incentives, banks may not have had enough pressure to lower rates significantly. Further reducing the spread will require financial sector reforms, stronger competition, and better credit risk management. While aid may have contributed to the decline, deeper changes are needed to make banking more efficient and credit more affordable.

4.4.3 Mozambique

Aid to Mozambique's formal financial sector has varied significantly, influenced by changing donor priorities and financial sector needs. Between 2012 and 2015, funding ranged from $2M to $7M, suggesting moderate donor engagement focused on strengthening banks, regulations, and credit access. Figure 16 offers a representation of the total aid to formal sector financial intermediaries in Mozambique.

In 2018, aid surged to nearly $20M, the highest recorded, likely supporting financial sector reforms, banking modernization, or crisis management efforts. This increase may have been driven by regulatory overhauls, stabilization programs, or liquidity support for struggling institutions. After 2019, aid dropped sharply, fluctuating between $2M and $10M in later years. This decline could indicate a shift in donor focus, improved financial stability, or a move toward private-sector-led development. Post-2019, aid became more targeted, possibly supporting specific policies, capacity-building, or fintech advancements rather than large-scale banking reforms.

Figure 16: Aid Disbursement to Formal Sector Financial Intermediaries in Mozambique

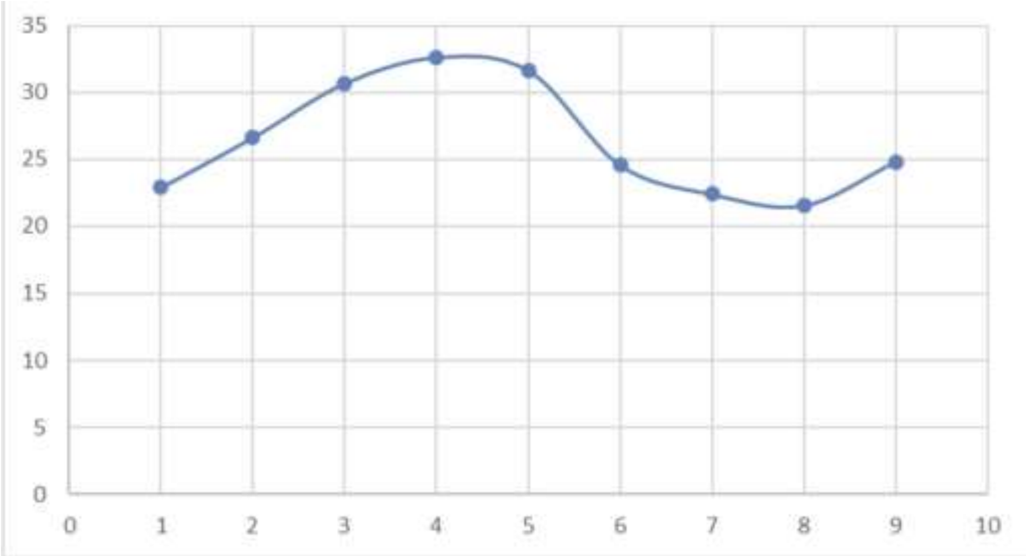
Source: Data from for Economic Co-operation and Development, 2025

Domestic Credit to the Private Sector by Banks (% of GDP)

Private sector credit in Mozambique grew from 22.9% to over 32% of GDP between 2012 and 2015 in Figure 17, which leads to the conclusion that stronger lending confidence, financial sector efficiency, and policy-driven credit expansion are potential contributors to this trend. This growth also likely could have resulted from regulatory reforms or increased banking liquidity. Between 2016 and 2018, credit dropped below 25% of GDP, likely due to stricter lending policies, economic instability, or liquidity shortages. Banks may have become more risk-averse, limiting new loans amid financial uncertainty. A partial recovery began in 2019, with credit rising toward 27% of GDP by 2021. This suggests adjustments in policies, regulatory improvements, or increased banking sector resilience. The 2018 surge in financial aid ($20M) coincided with peak private sector credit, suggesting that donor funding supported liquidity, credit guarantees, or lending expansion. When aid declined post-2018, private sector credit also fell, indicating that banks struggled to sustain lending without external support.

Despite lower aid levels after 2020, credit has started to recover, pointing to domestic banking reforms and economic stabilization. Whether Mozambique's financial sector can maintain credit growth without donor support remains to be seen.

Figure 17: Trends in Domestic Credit to the Private Sector in Mozambique



Source: Own work, data from Bank, 2025

Non-Performing Loan (NPL) Ratio

Mozambique's NPL ratio rose from 2.66% in 2012 to 5.73% in 2015, signaling rising loan defaults and financial instability. Banks may have expanded lending without strong risk assessment, while economic slowdowns weakened borrower repayment capacity.

In Figure 18, between 2016 and 2017, NPLs surged past 12%, likely due to macroeconomic instability, currency depreciation, and corporate loan defaults. Weak credit screening and an economic downturn strained the banking sector, making loan recovery more difficult. From 2018 to 2021, NPLs declined to 9–10%, suggesting better risk management, regulatory intervention, and economic recovery. However, the ratio remained high, showing ongoing financial sector challenges. The 2015–2018 surge in financial aid ($20M in 2018) coincided with rising NPLs, implying that increased credit availability may have led to riskier lending and higher defaults. As aid declined post-2018, banks tightened lending policies, improving loan quality. Even with lower aid after 2020, NPLs stabilized, suggesting banks adapted to reduced donor support. While the financial sector appears more resilient, credit risk management challenges persist, with NPLs still hovering at 8–10%.

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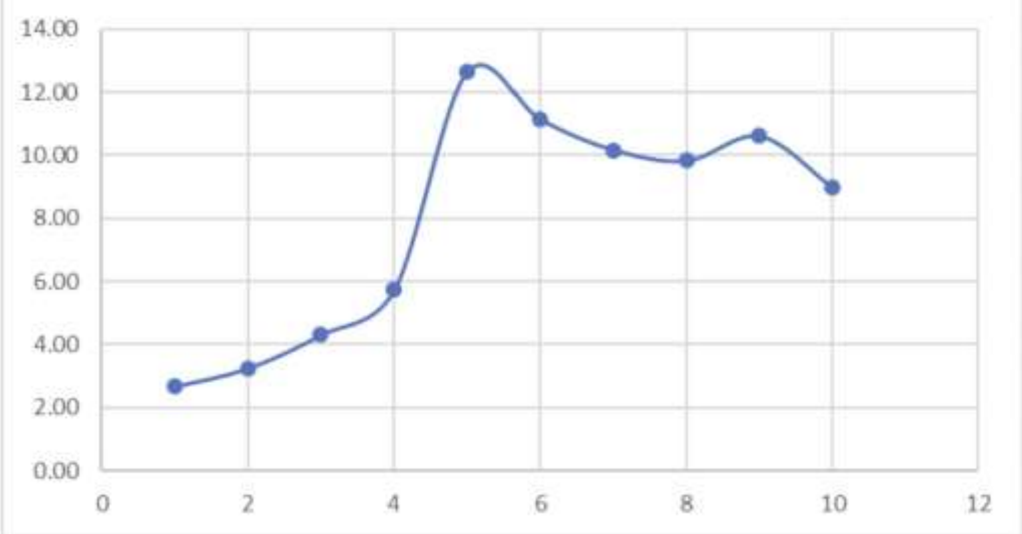
Figure 18: Trends in Non-Performing Loan (NPL) Ratio in Mozambique



Source: Own work, data from Bank, 2025

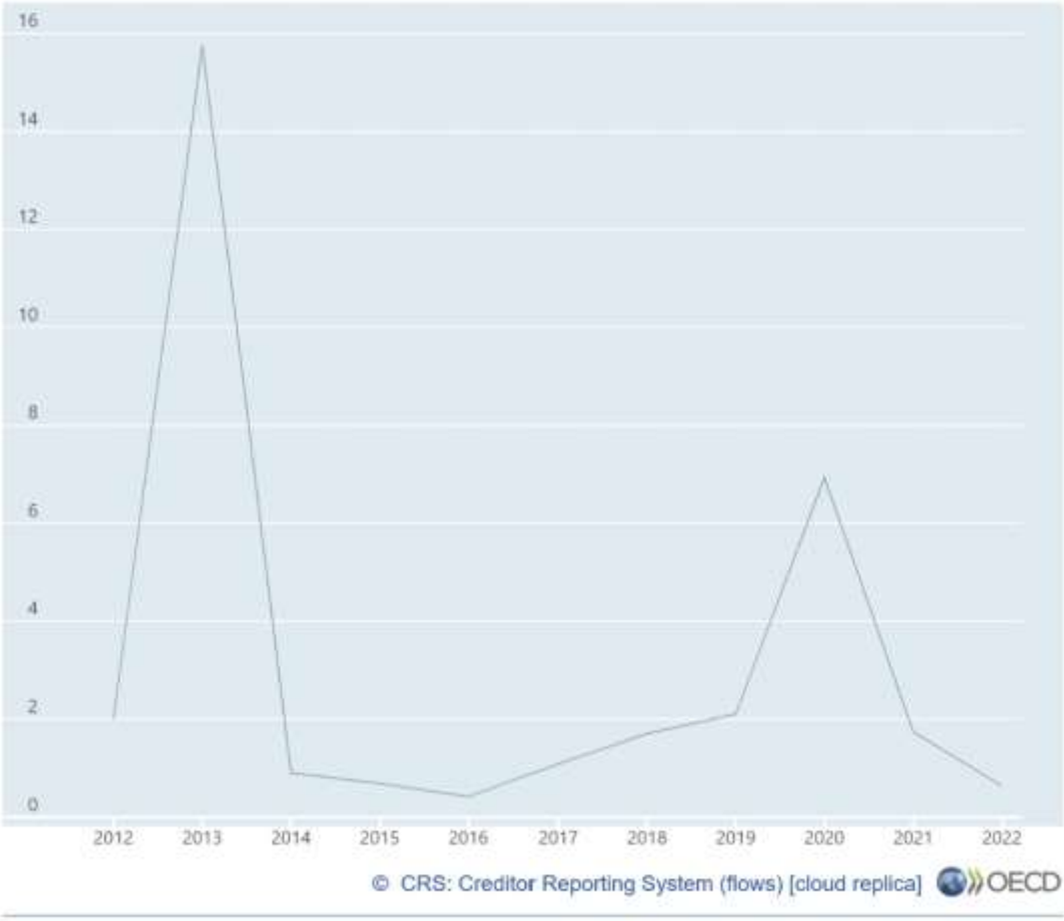
4.5 Informal Sector Financial Intermediaries

4.5.1 Bangladesh

Donor aid for Bangladesh's informal financial sector has been unpredictable, as funding surges and declines over time, as shown in Figure 19. Before 2013, aid remained below $2M, but a sharp spike to over $15M that year suggests a major push for microfinance, financial literacy, or rural credit access initiatives.

After this peak, aid fell below $1M from 2014 to 2016, possibly as earlier microfinance projects became self-sustaining or donor focus shifted to formal banking. Another increase from 2017 to 2020, reaching nearly $7M, may have been driven by financial inclusion efforts or economic recovery programs. By 2021–2022, aid reached its lowest levels, indicating either greater sustainability of informal finance, shifting donor priorities, or regulatory changes limiting external funding.

Figure 19: Aid Disbursement to Informal Financial Intermediaries in Bangladesh



Source: Data from for Economic Co-operation and Development, 2025

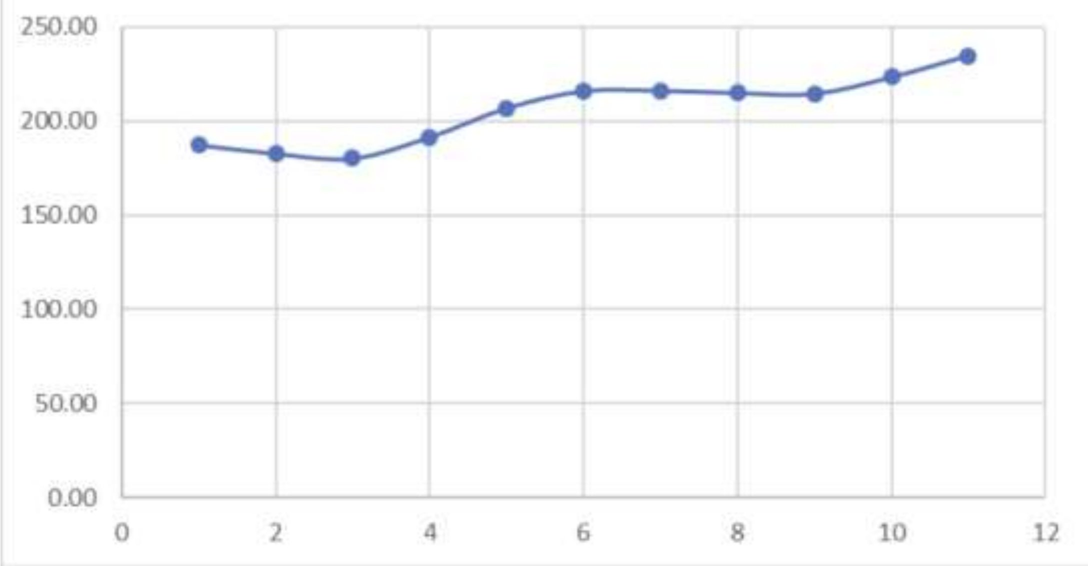
Number of Active Microfinance Accounts per 1,000 Adults

Microfinance in Bangladesh has steadily expanded, increasing from 187.28 accounts per 1,000 adults in 2012 to 234.69 in 2022. This growth, depicted in Figure 20, suggests a rising demand for microloans among low-income groups, small businesses, and rural populations with limited access to traditional banking.

Several factors have driven this expansion. The wider reach of microfinance institutions (MFIs), supportive regulations, and digital financial services have made credit more accessible. Mobile banking and online lending platforms have further reduced barriers, allowing borrowers to access microloans remotely. Government-backed financial inclusion policies and donor-funded programs have also played a role in sustaining microfinance operations.

Aid to informal financial intermediaries spiked in 2013, exceeding $15 million, before dropping sharply and staying low until another increase in 2020. While this early surge may have helped expand microfinance, the steady rise in microfinance accounts even after aid declined suggests that the sector became more independent over time. The 2020 aid increase coincided with another uptick in microfinance participation, possibly as donors responded to economic challenges. However, overall growth in microfinance appears to be driven more by reinvested loan repayments, local funding, and the expansion of digital financial services rather than ongoing donor support.

Figure 20: Trends in Microfinance Accounts in Bangladesh



Source: Data from IMF, 2025

Women's Access to Credit in Bangladesh

In 2021, only 16.8% of women in Bangladesh borrowed from a formal financial institution or mobile money account, showing a major gap in financial access [Bank, 2021]. Most still rely on informal sources like family or money lenders. Barriers include social norms, lack of financial literacy, legal restrictions, and the need for collateral. Although microfinance has expanded, it hasn't equally benefited women. Many still struggle to access loans due to property ownership restrictions, financial decision-making limitations, and low digital literacy, especially in rural areas. Even mobile banking, which could improve access, remains underused by women. To close this gap, policies should focus on lowering collateral requirements, expanding financial education, and improving digital banking access for women. If future aid and reforms address these gender barriers, Bangladesh could ensure that women benefit more from its growing financial sector.

Credit Access in Rural vs. Urban Bangladesh

In 2021, 15.60% of rural residents and 16.49% of urban residents in Bangladesh borrowed from formal financial institutions or mobile money accounts. The small gap of 0.89 percentage points suggests financial services are more evenly spread than expected, despite urban areas having better banking infrastructure and higher digital adoption [Bank, 2021]. Microfinance institutions (MFIs) and mobile banking likely bridge this gap by expanding credit access in rural areas. Grameen Bank and BRAC, among others, have focused on rural outreach, making microloans more available. Mobile banking also allows people to access credit remotely, reducing reliance on physical banks.

Despite this narrowing urban-rural divide, overall credit access remains low. Even in cities, only 16.49% use formal loans, meaning many still depend on informal lenders. The increase in microfinance accounts shows more people are engaging with financial services, but borrowing rates remain low. High-interest rates, debt concerns, and strict lending policies may keep people from securing loans.

4.5.2 Rwanda

ODA funding for informal and semi-formal financial intermediaries in Rwanda peaked in 2013–2014, likely to support microfinance expansion, financial access, and regulatory development. Figure 21 outlines the pattern of aid disbursement to informal financial intermediaries in Rwanda. After 2015, aid steadily declined, reaching its lowest levels by 2020–2021. This drop may signify a shift in donor focus toward formal banking, digital finance, or broader economic initiatives. It is also possible that earlier investments aimed to create self-sustaining microfinance institutions, reducing the need for ongoing support.

Whether this decline signals successful sector growth or a loss of essential funding remains unclear. If Rwanda's microfinance sector remains stable, it suggests progress toward self-sufficiency. However, if financial access for lower-income groups declines, further intervention like targeted financial inclusion programs or digital microfinance solutions may be needed.

Figure 21: Aid Disbursement to Informal Financial Intermediaries in Rwanda

Source: Data from for Economic Co-operation and Development, 2025

Number of Active Microfinance Accounts per 1,000 Adults

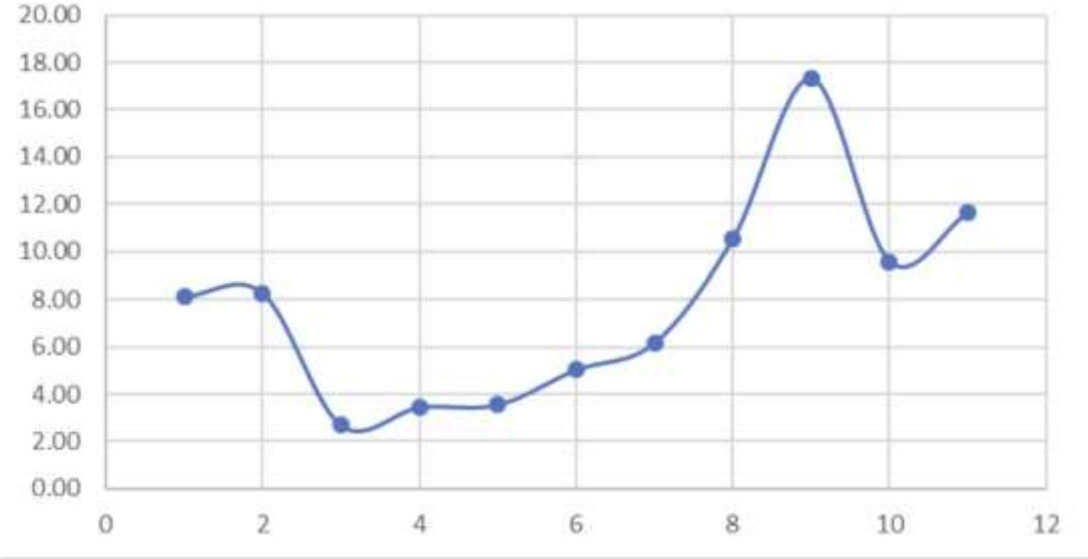
The number of active microfinance accounts per 1,000 adults declined from 2012 to 2015 in Figure 22, likely due to reduced donor aid, which may have weakened microfinance institutions' ability to expand or retain clients.

After 2015, the sector rebounded, with steady growth followed by a sharp increase from 2017 to 2020, despite low aid levels. This suggests private sector involvement, mobile financial services, and government initiatives played a larger role in expanding microfinance access. Regulatory improvements may have also helped institutions reach more underserved communities. The 2020 peak coincided with the rise of digital financial services during COVID-

19, showing that Rwanda's microfinance sector adapted to new financial technologies. However, post-2020, account numbers declined, possibly due to low aid levels, market saturation, or pandemic-related economic challenges.

Rwanda's microfinance sector has become less reliant on aid, but the recent decline raises concerns. Without additional support, expansion may slow, especially in rural areas. Strengthening financial literacy, digital microfinance, and regulatory frameworks will be crucial for sustaining growth.

Figure 22: Trends in Microfinance Accounts in Rwanda



Source: Data from IMF, 2025

4.5.3 Mozambique

Aid for informal and semi-formal financial intermediaries in Mozambique has been inconsistent, with low funding in the early years followed by a peak in 2017–2018, exceeding $2M, as shown in Figure 23. This surge suggests donor efforts to expand financial inclusion, support microfinance, or respond to economic challenges.

However, aid dropped sharply after 2018, continuing to decline until 2022, when disbursements reached minimal levels. This volatility suggests shifting donor priorities, possibly influenced by economic conditions, financial policy changes, or evolving global development strategies. One explanation is that initial aid focused on microfinance and informal credit expansion, but after a peak investment phase, donors shifted toward formal banking, digital finance, or broader financial reforms. If the informal sector was seen as self-sustaining or less impactful, funding may have been redirected to structured financial interventions instead.

Figure 23: Aid Disbursement to Informal Financial Intermediaries in Mozambique

Source: Data from for Economic Co-operation and Development, 2025

Percentage of Women with Access to Credit/Microloans

In 2021, only 9.15% of women in Mozambique borrowed from a formal financial institution or mobile money account, showing severe financial exclusion Bank [2021]. This is far lower than Bangladesh's 16.8%, suggesting greater structural and socio-economic barriers for women in Mozambique. Lower wages, employment instability, and lack of collateral could make it harder for women to qualify for loans. Many also lack financial literacy, preventing them from accessing available services.

Aid to informal financial intermediaries peaked in 2017–2018, yet women's borrowing rates remained extremely low in 2021. This suggests that aid did not directly support women's financial inclusion or had a delayed impact. Compared to Bangladesh's well-developed microfinance network, Mozambique lacks strong institutional support and policies prioritizing women's credit access. Expanding microfinance tailored for women, reducing collateral requirements, and improving financial literacy programs could help close this gap.

Credit Access in Rural vs. Urban Mozambique

In 2021, 16.89% of urban residents and 14.04% of rural residents in Mozambique borrowed from formal financial institutions or mobile money accounts. While the 2.85 percentage point gap is small, it still reflects barriers to financial access in rural areas Bank [2021].

Several factors contribute to this divide. Rural areas have fewer bank branches and ATMs, limiting access to credit. Lower financial literacy, weaker digital infrastructure, and economic constraints also make borrowing more difficult. Even though mobile banking has expanded, many rural communities lack internet access or trust in digital transactions.

Despite peaks in aid for informal financial intermediaries in 2017–2018, rural credit access remains low, suggesting that donor programs did not effectively reach rural populations. Aid may have been concentrated in urban areas, benefiting formal institutions and SMEs rather than directly addressing rural financial needs.

To close this gap, future aid efforts should focus on expanding microfinance, mobile banking infrastructure, and financial education in rural areas. Strengthening alternative credit options like cooperative lending and mobile-based microloans could further improve financial inclusion.

5 Discussion

This study set out to determine whether bilateral foreign aid contributes to financial inclusion and through which mechanisms these effects materialize. To answer this, the research analyzed total aid disbursements, sector-specific funding for financial services, and key financial indicators across Bangladesh, Rwanda, and Mozambique. It examined the relationship between aid and GDP per capita, tracked donor allocations to financial policy and banking infrastructure, and assessed financial inclusion through metrics such as private-sector credit, non-performing loan ratios, interest rate spreads, microfinance participation, and rural credit access.

In Bangladesh, Rwanda, and Mozambique, the link between aid inflows and GDP per capita growth showed mixed patterns. Bangladesh experienced the most consistent growth, where both aid and GDP per capita increased over time. This points to a connection between foreign assistance and economic expansion, especially in the areas of microfinance and mobile banking. Rwanda received steady aid inflows, and its efforts to develop digital financial services suggest that aid helped expand economic participation. Mozambique, however, struggled to convert aid into sustained growth. Despite receiving large amounts of foreign assistance, GDP per capita remained flat or declined in certain periods. This reflects deeper structural problems, including macroeconomic instability and governance weaknesses.

These patterns show that financial development does not depend on aid alone. Its impact is shaped by domestic policies, economic conditions, and the strength of financial institutions. In countries where aid complemented well-functioning financial systems and targeted sector-specific initiatives, it contributed to economic progress. Where institutions were weaker or policies lacked consistency, the effects were less clear or short-lived.

Beyond total aid inflows, this study analyzed how donor funding was directed toward financial services. The findings revealed sharp differences in how each country applied financial sector aid. In Bangladesh, periods of increased aid coincided with the expansion of microfinance and digital banking. This suggests that targeted financial aid was effectively funneled into initiatives that broadened banking access. Rwanda also showed a strong connection between financial aid and innovation, particularly in mobile banking, digital payments, and regulatory improvements. In contrast, Mozambique experienced greater fluctuations in financial sector aid, with no clear or lasting improvements in financial access. While aid can support financial inclusion, its impact remains uncertain when governance challenges or economic instability weaken financial systems.

One of the key findings of this study is the role of governance in financial sector development. Aid for financial policy and administrative management was measured using the Government Effectiveness Score. Bangladesh and Rwanda saw some improvements, but progress was uneven. In Rwanda, financial policy aid and governance scores moved together, which suggests donor support for regulatory institutions helped improve financial oversight. In Mozambique, governance remained weak despite aid, showing how difficult institutional reform can be. These mixed results show that while aid can strengthen financial policies, real institutional change depends on long-term commitment from within the country.

Aid to formal financial intermediaries had mixed effects across the three countries. In Bangladesh, donor support for commercial banks appeared to improve banking efficiency, as shown by a decline in the interest rate spread. However, it did not immediately lead to higher private-sector credit or lower non-performing loan (NPL) ratios. This suggests that challenges in lending policies and financial regulation remained. In Rwanda, private-sector credit rose slightly alongside increased aid to formal financial institutions, which points to some positive effects. But the high interest rate spread showed that inefficiencies persisted. In Mozambique, formal banking indicators showed little progress despite aid inflows. Without strong financial oversight and governance, donor support alone cannot drive financial sector growth.

6 Conclusion

The findings of this study provide strong evidence on how foreign aid shapes financial inclusion and the factors that determine its impact. While aid can support financial sector growth, its effectiveness depends on strong domestic policies. In Bangladesh and Rwanda, financial access improved when aid aligned with government priorities and private-sector initiatives. In Mozambique, where governance remained weak and economic conditions were unstable, the impact of aid was far less clear.

The way aid is allocated also matters. Targeted support for specific financial services like microfinance and digital banking proved more effective than broad, generalized financial aid. Countries that received donor funds for well-defined initiatives showed stronger improvements in financial access compared to those relying on broader economic assistance.

Governance plays a central role in determining outcomes. In Bangladesh and Rwanda, aid intended to strengthen financial institutions and regulatory oversight was linked to higher governance scores, though progress was not always consistent. Where financial oversight remained weak, as in Mozambique, aid had little lasting effect. Sustainability is another greatly important factor. In Bangladesh and Rwanda, microfinance participation continued to expand even as aid declined, showing that financial inclusion efforts can become self-sustaining. Mozambique, however, saw financial access stagnate once aid tapered off, reinforcing the claim that without lasting institutional support, donor-driven progress may not endure.

The findings of this study carry significant implications for policymakers, donors, and researchers seeking to understand how foreign aid can support financial inclusion. One of the clearest takeaways is that aid programs must be strategically aligned with a country's economic policies and governance framework. When aid is integrated into national development plans and regulatory reforms, it has a greater chance of driving long-term financial sector growth. In contrast, when aid is disconnected from domestic priorities or operates in environments with weak governance, its impact is often minimal or short-lived.

Sustainability should also be a central focus. Donors must ensure that financial assistance builds institutional capacity rather than fostering reliance on external support. Aid should not merely fill gaps but empower local institutions to sustain financial sector development independently. Strengthening financial oversight, improving legal frameworks for credit access, and supporting digital banking infrastructure are all ways to ensure that aid leaves a lasting impact. For policymakers, these findings support the importance of proactive financial sector reforms. Reducing regulatory barriers, increasing financial transparency, and fostering competition within the banking industry can help aid translate into broader economic participation. Policymakers should also focus on incorporating technology, as digital banking and mobile payment systems have already shown strong potential in countries like Bangladesh and Rwanda.

Ultimately, these findings conclude that aid alone is not a solution but rather a tool that, when used effectively, can help build more inclusive financial systems when backed by strong governance, sustainable institutions, and investment in technology. To maximize its impact, policymakers and donors must move beyond short-term interventions and focus on building financial systems that stand on their own.

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