CGAP

BRIEF

Spotlight on International Funders' Commitments to Financial Inclusion

Although international funders have been longstanding supporters of financial inclusion, their commitments have been put to the test in the past five years. The financial crisis led to a more challenging economic environment and budget cuts at public donor agencies. Results of impact studies made the expectations of microfinance more realistic. Yet, international funding continues to grow. In 2013, international funders committed at least $31 billion to support financial inclusion—an estimated increase of 7 percent on average per year between 2011 and 2013. This Brief analyzes trends in the international funding landscape based on CGAP research.

Public funding continues to dominate, while private funding decreased for the first time.

Overall, public funding for financial inclusion represented approximately 75 percent of the global estimate (see Figure 1). Despite continued pressure on public resources, public funders increased their commitments in the past two years by an estimated average of 11 percent annually. Although they approved more new projects during this period compared to 2009–2011 (on average $3.8 billion per year between 2011 and 2013 versus $3.4 billion between 2009 and 2011), growth in commitments is also explained by fewer projects that closed between 2011 and 2013 ($1.6 billion per year on average) compared to 2009–2011 ($2.4 billion per year on average).[1]

In contrast, commitments from private funders decreased by an estimated average of 2 percent per year between 2011 and 2013.[2] Microfinance investment intermediaries (MIIs)[3] channel most of the private funding. Even though microfinance investments vehicles (MIVs) increased their investments in financial services providers (FSPs), the increase was partially driven by drawing on an existing pool of assets that were committed before 2013 (Symbiotics 2014 and 2013). Private commitments to MIIs decreased in the past two years.[4]

Most funders focus on addressing supply-side barriers.

Because a wide range of constraints impede financial inclusion, individual funders often choose to address a particular subset of challenges based on their own strategic direction, comparative advantages, budget, and staff capacity. The majority of international funders reported that they prioritize the insufficient range of suitable products and services and the limited institutional capacity of FSPs. In 2013, they committed $1.8 billion toward building the capacity of FSPs (Figure 2). In contrast, funders reported they give less priority to the lack of funding as a barrier to financial inclusion, but most funding was used to finance the growth of FSPs ($17.9 billion, representing 76 percent of commitments). A closer look at the solutions these projects are trying to provide gives a more granular picture of their purpose and what funders are trying to achieve. Excluding financing, funders reported 1,387 projects to enhance FSPs' capacity, and the majority supported product development (371 projects) and improving the operations of FSPs (351 projects).[5]

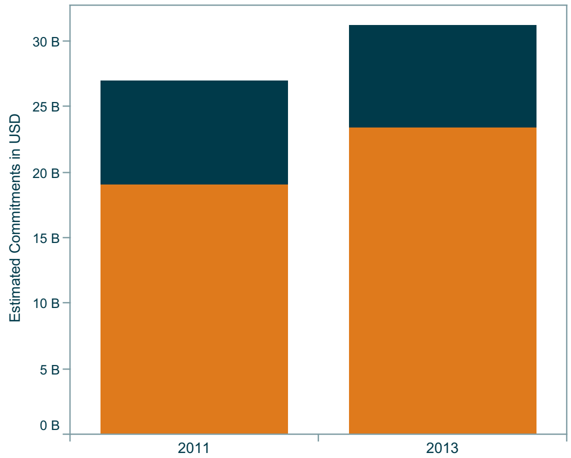
Funders committed $0.5 billion to enhance the capabilities of future and existing clients of FSPs. Multilateral organizations and foundations provided most of the funding for this purpose in 2013. The majority of the projects focused on improving the financial capability of poor people (126 projects out of 293 projects focused on enhancing current and future FSP clients' capabilities).

Inclusive financial markets also require an effective infrastructure and a legal and regulatory environment that can support their development while protecting customers. Funders committed $0.6 billion to support the market infrastructure and $0.5 billion to develop enabling policy environments. While these amounts are small compared to funding for FSPs, projects with these purposes require less funding and more technical expertise. Multilaterals and bilaterals traditionally have been the most active funders in these areas. In the past couple of years though, foundations have stepped up to improve the market infrastructure. Out of 793 market infrastructure projects, the majority focused on

1 Most funder projects extend over several years, with average maturity at around five years. Funders normally have a pipeline of new projects that replace current projects as they mature.
2 Private funding in our estimate is based on a combination of data from the CGAP Funder Surveys and MII data from the Symbiotics MIVs surveys. Double counting that may result from public funding going to MIVs has been removed.
3 MIIs are investment entities that have microfinance as one of their core investment objectives and mandates. They include a broad spectrum of players: MIVs, holding companies, and nonspecialized microfinance investment funds.
4 Symbiotics surveys show that, between 2011 and 2013, institutional investor contributions grew by a rate of 3 percent per year on average and retail investor contributions decreased by 6 percent per year on average.
5 Because one project may aim at multiple solutions, the breakouts presented in this analysis will exceed the total number of projects reported.

March 2015

Figure 1. Global Estimated Commitments to Financial Inclusion (in USD billion)



Sources: 2012-2014 CGAP Cross-Border Funder Survey, 2012-2014 Symbiotics MIV Survey

Funder Type
Private
Public

capacity-building services (258 projects), information and transparency (237 projects), and payment systems (195 projects). Funders also reported a total of 480 projects that focus on policy and most aimed at improving the regulation and supervision of FSPs (243 projects) and consumer protection policies (198 projects).

At a high level, these findings highlight some interesting information; they also raise important questions regarding the role of funders.[6] For example, are funders that provide financing to FSPs doing it in a way that encourages the development of local funding markets? Are projects that focus on product development incorporating the characteristics and financial behavior of low-income people? Are they incentivizing FSPs to innovate? Are funders' projects addressing the root causes of barriers to ensure long-term growth and access? Often root causes of barriers to financial inclusion relate to the market infrastructure and the policy environment. So, why is there little funding and fewer projects supporting these two areas?

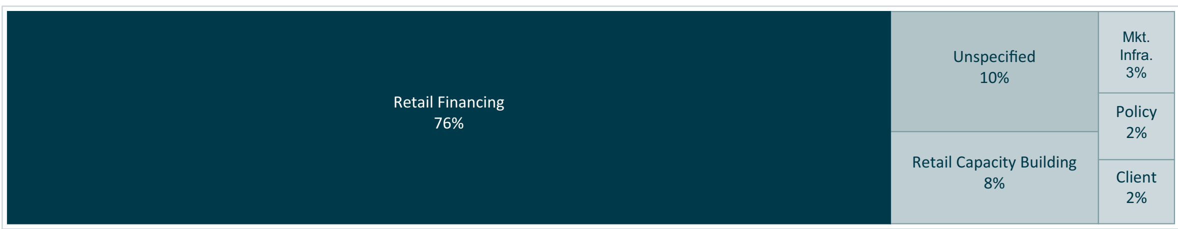
Debt dominates in terms of volume, but grants are the most commonly used instrument.

Debt financing continues to be the most important instrument in terms of volume of commitments with $13.8 billion in 2013 (see Figure 3). Total debt commitments grew by an annual average of 12 percent between 2011 and 2013. Close to half was used to directly finance the loan portfolio of FSPs ($6.8 billion). Out of this, 73 percent was in hard currency ($5 billion) and most had a tenor of one to five years with an average loan size of $15.2 million. Local currency debt reached $1.1 billion, and half was committed to Eastern Europe and Central Asia (ECA).Twenty-nine percent of debt funding was channeled through governments[7] and then on-lent to FSPs and/or used to support a broad range of activities toward financial inclusion.

While grants represented only 12 percent of the commitments in 2013 ($2.9 billion), the majority of international funders used this instrument to support financial inclusion (43 out of 56 funders and 1,289 out of 3,128 projects).[8] Grants funding grew at an annual average of 2 percent in the past two years. Close to one-third of grant funding was used to build the capacity of FSPs ($0.9 billion) and almost one-quarter to finance the growth of FSPs ($0.7 billion). Sub-Saharan Africa (SSA) is by far the region receiving the most grant funding with 40 percent of grant commitments in 2013 ($1.2 billion).

Equity funding continues to grow steadily and reached $3.7 billion in 2013. Two-thirds were invested in MIIs, such as holding companies and MIVs, and 19 percent of commitments in equity was used to strengthen the capital base of FSPs.

Figure 2. Commitments by Purpose as of December 2013 (in % of commitments)



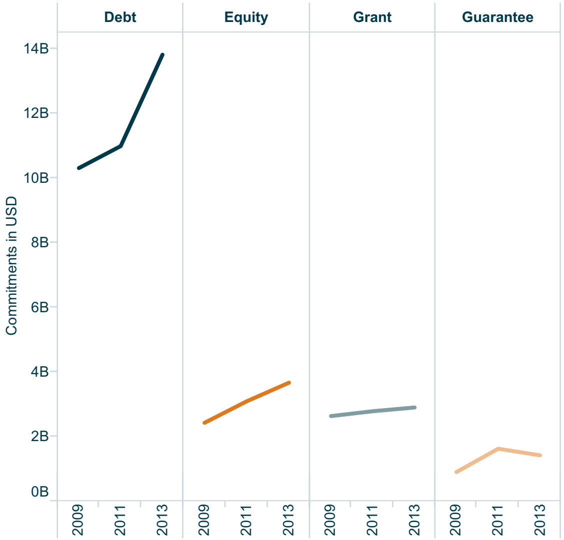
Source: 2014 CGAP Cross-Border Funder Survey, N=56 Funders.

6 The CGAP Funder Survey asks respondents to report their projects' commitments by purpose. The reporting framework has been kept simple because funders' reporting systems do not usually track the specific purpose(s) at a project level; let alone in terms of commitments. The efforts made for the survey are a step in the right direction, and the analysis provides useful information at a high level. But it begs for more detailed information to capture more nuances and shed more light on how funders contribute to advance financial inclusion.

7 One of the main funding instruments used by multilateral donors are loans to developing countries. Often these loans are channeled through and managed by state-owned institutions such as apexes, development banks, or project implementation units.

8 Because one project may use several instruments, the breakouts presented in this analysis will exceed the total number of projects reported.

Figure 3. Trends in Commitments by Instrument (in USD billion)



Sources: 2012–2014 CGAP Cross-Border Funder Survey, Same Set Funders N=54

SSA is a priority region for international funders, but most commitments still focus on ECA.

SSA topped funders' financial inclusion projects with 788 projects out of 3,128. Commitments to this region grew by an average of 11 percent annually in the past two years to reach $3.5 billion in 2013. Debt and grants are the main instruments in SSA, comprising 38 and 34 percent of commitments, respectively, to the region in 2013. Development finance institutions (DFIs) are the most active and largest funders in the region with $1.6 billion in commitments, working mostly with FSPs either to provide financing or enhance their capacity. Most of their debt funding is provided in hard currency with an average loan size of $12 million and a maturity of six to 10 years.

International funders committed most of their funding to ECA with $6.2 billion in 2013. Ninety-five percent of commitments to the region served to finance FSPs and mainly in the form of debt. DFIs are the main funders in the region. Most of their debt funding is done in hard currency with an average loan size of $17.6 million and a maturity of one to five years. In a region where local sources of funding are less prevalent compared to other sources, how have these consistently large amounts of debt funding to FSPs contributed to developing local funding markets?

Box 1. Funding to country facilitators

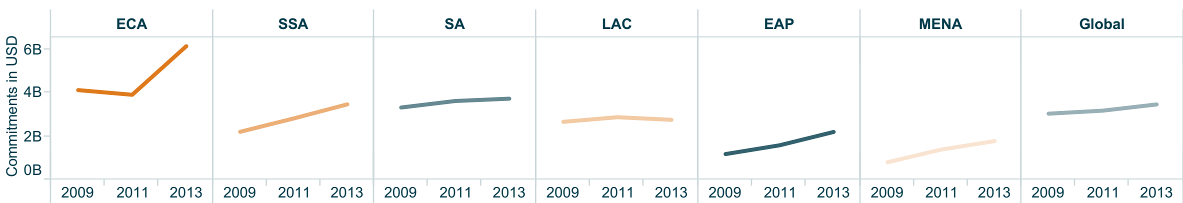
There is emerging evidence that developing inclusive financial markets is best done through an independent facilitator. An independent facilitator is close to the market and thereby able to monitor developments on an ongoing basis. Based on this knowledge, the facilitator can disseminate information about the market and its participants, provide incentives for market actors to take on new risks, and help to build the capacity of market participants (El-Zoghbi and Lauer 2013).

A handful of bilaterals and foundations have helped with the creation of country facilitators. Today, half a dozen are operating, mostly in SSA. Examples of country facilitators include FSD Kenya, FinMark Trust in South Africa, and EFInA in Nigeria. In 2013, funders committed $133 million to support such actors. Facilitators decide how their funding is allocated based on market needs. The purpose of funding reported by survey participants is used as a proxy to capture facilitators' interventions. Thirty-eight percent of commitments to facilitators were reported to support market infrastructure activities, 22 percent to develop an enabling policy environment, 12 percent to finance FSPs, and 9 percent to build their capacity. (The remaining 19 percent were not specified.)

All other regions experienced steady growth in the past two years, with the exception of Latin America and the Caribbean (LAC), where commitments decreased by an average of 2 percent per year between 2011 and 2013. This decline is largely explained by the fact that during the past two years multilaterals closed many more projects than approved new ones. In contrast, DFIs are the only funder segment that increased their commitments to LAC with an average annual growth rate of 5 percent in the past two years. Their increased commitments begs the question: How do they consider their funding to be additional where local funding markets are more developed than other regions?

In terms of funding concentration, the five countries receiving the most international funding accounted for 25 percent of total commitments. These countries

Figure 4. Trends in Commitments by Region (in USD billion)



9 In 2015 Turkey assumed the Presidency of the G20 and has set new priorities for financial inclusion. More information is available at https://www.infine.lu/g20-turkish-presidency-2015-priorities-financial-inclusion/.

are mature markets, which benefit primarily from DFI funding; they comprise of India ($2.6 billion), Turkey ($1.6 billion), Indonesia ($0.6 billion), Egypt ($0.6 billion), and Peru ($0.4 billion). On the other hand, countries with the largest number of active funders are India (26 funders), Kenya (24 funders), Uganda (23 funders), Tanzania (19 funders), and Peru (18 funders).

Looking ahead

In 2010, financial inclusion became a priority for the G20. Since then, and despite a challenging environment, international funders have demonstrated their commitment to this development goal, in particular through increased funding. It will be interesting to look at how the new G20 priorities[9] for financial inclusion translate into funder commitments. To date, most of their commitments have focused on developing strong FSPs. In the next three years, funders indicated that their interventions will continue to focus on the supply side by expanding the range of products, improving responsible finance practices, and improving management and governance.

However, many funders are simultaneously seeing the limits to supply-side interventions that do not always translate into broader market-level impact beyond the FSP. There is a growing understanding and awareness that more needs to be done to ensure that funders can catalyze systemic change that serves the needs of the poor and benefits the entire market system and not just the funders' investee. As this shift takes a firmer hold and funders slowly adapt their strategies and how they work, we expect to see meaningful changes in how this funding is channeled and for what purpose.

Methodology

The Brief is based on data from the CGAP Cross-Border Funder Surveys conducted in partnership with MIX. In 2014, CGAP used data from 56 international funders. Their total commitment was $23.6 billion and represented 76 percent of the global estimate. The global estimate is calculated on data from this sample and publicly available data from Symbiotics Surveys (www.syminvest.com). Other trend data are available only biannually on a subset of 54 funders. Growth rates were annualized using a compound rate formula. For example, the annualized growth rate between 2011 and 2013 was calculated as follows: [(Commitments 2013/Commitments 2011)^(1/2)]-1.

In 2013, the survey methodology was updated to reflect more systematically the broader vision of financial inclusion. One important change is the inclusion of projects that support access to finance for small enterprises. While in previous surveys, CGAP attempted to remove this portion of the projects' commitments to focus on microfinance only, in 2013 funders reported on access to finance projects for micro and small enterprises. Projects supporting access to finance for medium enterprises is not included, but funders' reporting systems do not always allow excluding this portion, and adjustments were made on a case-by-case basis. Another change is the inclusion of funding allocated to a new purpose category: client capabilities. It comes in addition to the retail FSP, market infrastructure, and policy purpose categories included in previous surveys. The goal of projects in this new category is to enhance current and future FSP clients' capabilities.

Historical data were updated where possible to reflect these changes. However, because not all projects before 2012 may have been added retroactively, the historical data may not fully represent the commitments to financial inclusion in prior years. This may result in over-estimation when reporting growth trends.

Finally, CGAP introduced a qualitative aspect to the survey to further understand the purpose of reported projects. The framework has been organized in two main categories: barriers to financial inclusion and their corresponding solutions. Within each grouping of solutions, there is a comprehensive but not mutually exclusive set of detailed solutions (available on www.cgap.org/data). Funders identified which of these detailed solutions the reported projects aim to provide. One project may have multiple detailed solutions listed. We use the number of projects pursuing a given solution as a proxy to gauge the relative importance of each solution for the funders since respondents are not always able to provide disaggregated project commitment for each purpose.

For more information on the methodology, go to www.cgap.org/data.

References

El-Zoghbi, Mayada, and Kate Lauer. 2013. "Facilitating Market Development to Advance Financial Inclusion." Focus Note 89. Washington, D.C.: CGAP, October.

Symbiotics. 2014. "Symbiotics 2014 MIV Survey Report." www.syminvest.com/papers

AUTHORS:
Estelle Lahaye and Edlira Dashi with Eda Dolke and Matthew Soursourian

March 2015

All CGAP publications are available on the CGAP Web site at www.cgap.org.

CGAP
1818 H Street, NW
MSN P3-300
Washington, DC
20433 USA

Tel: 202-473-9594
Fax: 202-522-3744

Email:
cgap@worldbank.org