

# Taking Stock: Recent Trends in International Funding for Financial Inclusion

This Brief highlights findings from CGAP's annual Cross-Border Funder Survey. The 2016 survey reports funding commitments from the largest international funders of financial inclusion, as of 31 December 2015.<sup>1</sup> CGAP has conducted the survey since 2008, and in partnership with MIX since 2012. The data from this year's report come from 54 funders who report to the survey biannually.<sup>2</sup>

## Funding for financial inclusion increased by \$3 billion

New commitments in 2015 increased total funding for financial inclusion to \$34 billion (see Figure 1). Between 2013 and 2015, about one-third of funders decreased their portfolios, while the remainder maintained or increased their commitments.

Funding commitments increased among both public and private funders, with public funders continuing to represent just over 70 percent of total funding.<sup>3</sup> Development finance institutions (DFIs) provide the majority of funding, followed by multilateral and bilateral development agencies. We anticipate that public funding will continue to grow more quickly than private funding, in part because data from microfinance investment vehicles (MIVs) suggest that 2016 will mark their slowest growth in the past decade. Furthermore, impact investors report plans to decrease their allocations to microfinance and financial services, according to the most recent data from the Global Impact Investing Network (Mudaliar, Schiff, and Bass 2016).

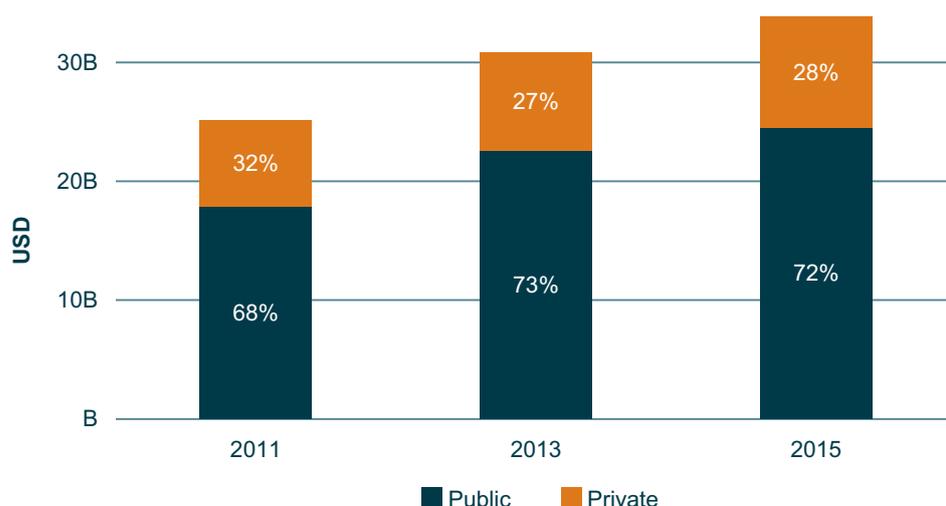
While not directly comparable with CGAP data, Official Development Assistance (ODA) trends reported by the Organisation for Economic Co-operation and

Development (OECD) show that cross-border aid across all development sectors grew slowly in the past two years.<sup>4</sup> International funding commitments for financial inclusion, however, were 10 percent higher in 2015 than in 2013, with more than two-thirds of the public funders and private foundations in the CGAP survey reporting that financial inclusion in 2015 represented the same or higher share of their overall development portfolio.<sup>5</sup> Going forward, nearly 80 percent anticipate maintaining or increasing their funding commitments to financial inclusion. Aid agencies are increasingly looking for ways to engage with the private sector and reduce poverty through economic development; it is possible that the relative growth in financial inclusion funding among such funders is emblematic of this broader trend. One bilateral funder interviewed explained that "cooperation with the private sector helps to promote financial inclusion internally," since it aligns with the new aid paradigm.

## Funders are reviewing strategies and integrating financial inclusion

The past two years marked a period of strategic reorientation for funders, many of whom reported that their greatest challenge has been adapting their strategy.

Figure 1. Global Estimated Commitments for Financial Inclusion



Sources: 2012–2016 CGAP Cross-Border Funder Survey, 2012–2016 Symbiotics MIV Survey

<sup>1</sup> Commitments refer to funds that have been approved for a specific investment/project, whether or not disbursed.

<sup>2</sup> See Methodology on page 4.

<sup>3</sup> Public funders include DFIs and bilateral and multilateral development agencies. Private funders include foundations and other donors and investors that use private funding sources.

<sup>4</sup> ODA reports on funds disbursed, while CGAP tracks commitments. Cross-border ODA grew from \$130.5 billion in 2013 to \$132.7 billion in 2015, which represents an annualized growth rate just under 1 percent. Several European countries also reported large increases in spending on in-country costs related to the influx of refugees. If these domestic costs are included, the average annual growth rate of ODA from 2013 to 2015 jumps to 4.1 percent (OECD 2016).

<sup>5</sup> Based on data from 32 funders who responded to this question.

### Box 1. “Financial inclusion for: \_\_\_\_\_”

Adding “themes” to the survey in 2014 offered insights into how funders are leveraging financial inclusion to achieve broader development objectives. Of the 3,600 projects active in 2015, about 2,300 have been tagged with one or more theme.

After medium and small enterprise financing (1,155 projects), the most commonly tagged themes are agricultural and rural finance (503 projects), digital finance (226 projects), gender equality (218 projects), market facilitation (95 projects), and green finance (81 projects).

Agricultural and rural finance projects are most commonly funded by DFIs and multilaterals, with one-third of projects in Sub-Saharan (SSA) and a fifth in Latin America and the Caribbean (LAC). They are often channeled through governments in the form of debt.

About half of the 218 projects that support gender equality are funded by multilateral agencies and a quarter by foundations. Thirty percent are in SSA, and 20 percent are in LAC. Like agricultural projects, these projects also tend to be loans to government.

Green finance includes energy efficiency, access to renewable energy, and sustainable resource management projects. SSA (22 projects) and South Asia (18 projects) are home to the largest numbers of these projects, which are mostly funded by multilaterals and bilaterals through debt.

Interviews revealed that at least eight major funders, who together represent 30 percent of all commitments, are in the midst of re-evaluating their financial inclusion strategies. One factor contributing to the need for strategy reviews is that organizations increasingly view financial inclusion as an enabler of other development objectives and not as a standalone goal. Subsequently, funders report that embedding or integrating financial inclusion within projects that target multiple goals is becoming more common (see Box 1). Several funders reported that it was becoming increasingly difficult to isolate the exact amount of funding within each project that supports financial inclusion. For those familiar with the history of microfinance, this trend may provoke concerns that the sector is returning to the directed credit projects that were once popular in development but relied heavily on subsidies and could not be delivered sustainably. Thus far though, experience suggests that this “second-wave” of financial inclusion integration means using financial services, often delivered digitally, to increase access to a critical service, such as energy or education.

### Funders slowly look beyond traditional supply-side support

Financial and technical assistance to retail financial service providers (FSPs) continues to represent the bulk of international funding for financial inclusion, but funders are slowly increasing their focus on improving market infrastructure and strengthening financial

capability at the client level. More than two-thirds of overall funding is used to finance the lending portfolio of FSPs, either directly or via microfinance investment intermediaries (MIIs) and other intermediaries such as banks and apexes (see Figure 2). Another 7 percent supports capacity building of FSPs, especially through improving operations, management, and governance. However, this year, commitments that address barriers at the client level reached nearly \$1 billion and doubled as a percentage of total funding—up to 4 percent in 2015. Funding for market infrastructure also grew significantly, matching commitments at the client level at just under \$1 billion. More than half of the projects that focus on market infrastructure are in sub-Saharan Africa (SSA), and a quarter are in South Asia (SA). Market infrastructure projects often focus on information and transparency (through credit bureaus, for example), payment systems, or working with providers of capacity building services.

### Funding—mostly still through loans—targets increasingly diverse recipient types

Funders continue to use debt for more than half of total funding, although the real value of debt funding decreased due to the decline of the euro. Debt mostly comes from DFIs and multilaterals: DFIs typically invest in FSPs, either directly or indirectly via MIIs, while multilaterals often channel their loans through governments.

Figure 2. Funding Purpose 2015

Financing for FSPs 69%	Unspecified 14%	Market Infrastructure 4%
	Capacity Building for FSPs 7%	Clients 4%
		Policy 2%

Source: 2016 CGAP Cross-Border Funder Survey, N = 54 funders

## Box 2. DFS Deep Dive

Funders continue to prioritize digital financial services as a way to accelerate financial inclusion. The following high-level insights emerged from the latest data.

1. Almost half of funding for digital finance goes to SSA and a quarter to multi-country or global projects.
2. Multilaterals are the largest funder subtype by volume, but foundations run the highest number of projects.
3. Government is the single biggest recipient of funding for digital finance, accounting for about 20 percent of projects and focusing primarily on regulation and supervision. One in 10 projects targets MNOs and mobile money operators.

While debt is the largest instrument in every region, the ratio of grants to debt is highest in SSA and the Middle East and North Africa (MENA), where grants account for 31 percent and 25 percent of total funding, respectively. And although debt is the largest instrument by volume, grants remain the most common instrument by number of projects: 40 percent of projects in 2015 contain a grant component. Bilateral development agencies account for more than half of grant funding, but our data suggest that at least some bilateral funders are increasing their use of debt.

Equity is the third instrument by volume. It is primarily used by DFIs and is most common in middle-income countries. Guarantees and structured finance are the least common instruments, together comprising 11 percent of total funding. Both instruments are primarily used by DFIs and typically target projects that are global, in Europe and Central Asia (ECA) or MENA. After steadily decreasing in recent years, structured finance appears to be on the rise, particularly among DFIs.

More than half of funding is channeled to FSPs or MIs, the top two recipient categories with 37 percent and 22 percent, respectively. Governments receive about 20 percent, and other intermediaries receive just under 10 percent. However, funding to recipients beyond these traditional categories has grown in recent years. Of the \$3 billion in funding channeled to “other” recipients, more than half is committed to nonfinancial service providers or nongovernment organizations, who are often responsible for implementing programs on behalf of funders. At least \$200 million targets actors in the digital finance ecosystem, with \$130 million going to mobile network operators (MNOs) or mobile money providers and the rest spread among payments platforms, money transfer services, and FinTech firms (see Box 2). About \$167 million goes to market facilitators, which include

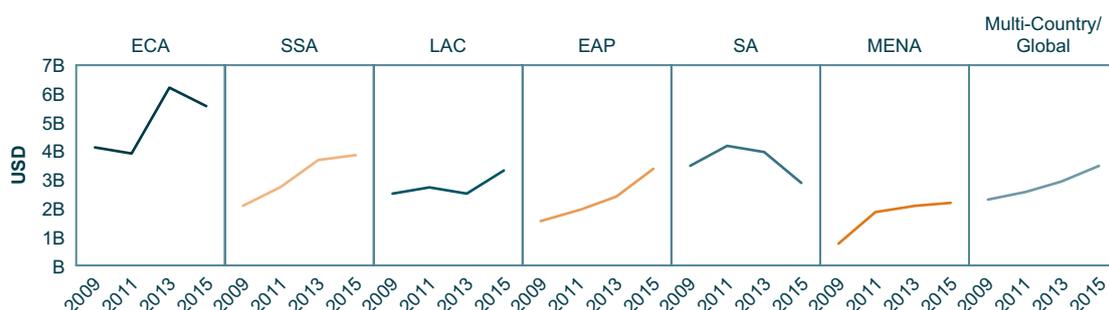
members of the Financial Sector Deepening network in SSA, and \$166 million is committed to multilateral development agencies on behalf of other funders.

## Funding to SSA surpasses SA for first time

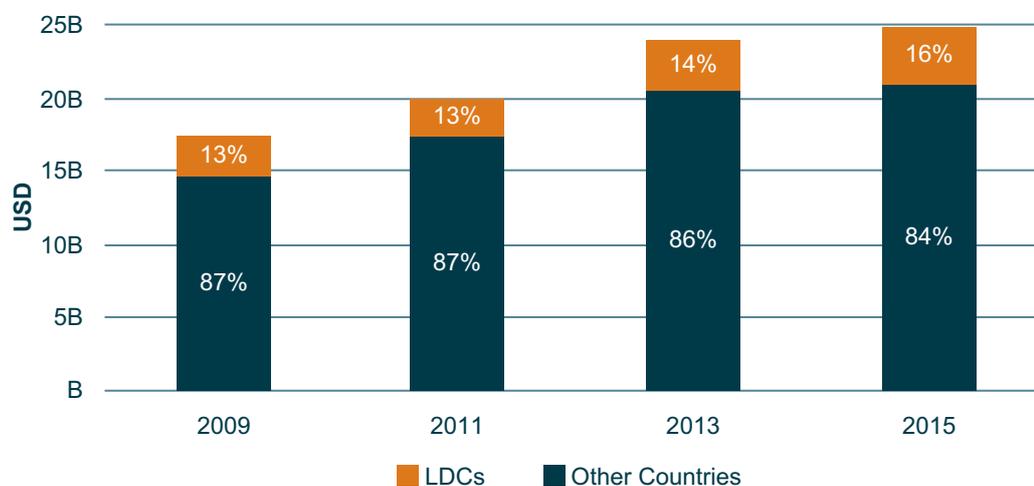
Funders have sharpened their focus on SSA, with funding to SSA surpassing that to SA for the first time (see Figure 3). One-third of all projects are located in SSA, and SSA now ranks as the second highest funded region. ECA is the highest funded region, but funding in real terms declined in the past two years due to significant exchange fluctuations and a slowdown in project approval. About 40 percent of the decline in funding to ECA is attributable to decreased flows to Russia, which has faced economic sanctions since 2014. Funding to Latin America and the Caribbean (LAC) increased in the past two years, although the number of projects declined. Part of this trend can be explained by an increasing percentage of funding being channeled through MIVs or other intermediaries. Funding to MENA grew 9 percent annually using a constant exchange rate from 2013. In real terms, though, funding has remained stable, since two-thirds of funding comes from Eurozone funders. Funding to East Asia and the Pacific grew significantly, primarily due to the approval of several large projects in China and Indonesia in 2015. Conversely, funding to SA declined in 2015 due to the closure of a large multi-year project in India.

The countries receiving the most funding in 2015 are Turkey, India, Indonesia, Mexico, and Pakistan. Together, they account for 25 percent of all single-country funding. Between 2013 and 2015, the number of active funders increased by at least seven in Myanmar, six in Mozambique, and four in Cote d’Ivoire.

Figure 3. Regional Funding Trends



Source: 2010–2016 CGAP Cross-Border Funder Survey, N = 46 funders

**Figure 4. Trends in Commitments by Country Income Classification**


Source: 2010–2016 CGAP Cross-Border Funder Survey, N = 46 funders

Funding to Least Developed Countries (LDCs) is growing about six times faster than funding to non-LDC countries, at 6.5 percent annually from 2013 to 2015 (versus 1.1 percent growth to non-LDCs) (see Figure 4). Although LDCs receive just 16 percent of 2015 funding commitments, half of the growth in commitments between 2013 and 2015 target these countries. This marks a significant change from previous years, when LDCs received 20 percent or less of net new commitments. Almost all funder types are contributing to this growth, although bilateral funders account for the largest amount of funding to LDCs. While grants have been the primary funding instrument for LDCs historically, debt funding has increased and by 2015 nearly equaled grants in volume. Funding to the 25 Universal Financial Access (UFA) priority countries (which account for 73 percent of all financially excluded people) grew on average 5.5 percent annually between 2013 and 2015, whereas funding to non-UFA priority countries decreased slightly.<sup>6</sup>

## Looking Ahead

Funders project that the upward trend of funding for financial inclusion will continue in the next three years. They will continue to focus on the retail level primarily to expand the range of products and services, but in contrast to prior years, funders report that they will prioritize using financial inclusion to address specific objectives such as agricultural productivity or energy efficiency. Regarding regional allocation of funding, funders plan to redouble their efforts in SSA, while deprioritizing ECA. We anticipate that as funders' perspectives on financial inclusion continue to evolve—shifting from a stand-alone objective to an enabler of other goals—it will become

further integrated into projects and within institutions. Nevertheless, financial inclusion interventions remain a key tool in building resilience, expanding livelihood opportunities, and improving the lives of poor people.

## Methodology

This Brief is based on data from the 2016 CGAP Cross-Border Funder Survey conducted in partnership with MIX. Each year, the survey alternates between a full set of funders (50-plus) and a smaller set (20-plus). For this year's survey of 2015 data, CGAP collected data from 54 international funders, whose commitments made up 74 percent of global estimated funding for financial inclusion. Multi-year trends are based on the 46 funders who have reported bi-annually since 2009. The global estimate is calculated by combining data from our samples and publicly available data from the Symbiotics MIV Survey ([www.syminvest.com](http://www.syminvest.com)). For more information on the methodology, visit [www.cgap.org/2016-Funding-Data](http://www.cgap.org/2016-Funding-Data).

## Sources

Mudaliar, Abhilash, Hannah Schiff, and Rachel Bass. 2016. "2016 Annual Impact Investor Survey." New York: Global Impact Investing Network.

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Symbiotics. 2016. "2016 Symbiotics MIV Survey, Market Data & Peer Group Analysis," 10th edition. Geneva: Symbiotics.

<sup>6</sup> In 2015, the World Bank, IFC, and a coalition of partners committed to increasing by 1 billion the number of people with access to transaction accounts by 2020. The initiative prioritizes 25 countries that are home to the majority of financially excluded people. For more information, go to [ufa.worldbank.org](http://ufa.worldbank.org).

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