

Trends in Cross-Border Funding

Microfinance funding is becoming more transparent. More than 60 microfinance funders regularly report information on their microfinance portfolio to CGAP, and extensive data are available on microfinance investment vehicles (MIVs) through Symbiotics and MicroRate. In 2011, CGAP surveyed the 20 largest microfinance funders, which represented over 85 percent of commitments reported in the previous survey year. Based on the findings of that survey and previous surveys, this Brief describes global trends in microfinance funding between 2007 and 2010.

Cross-border funding continues to increase

Cross-border funding for microfinance has increased over the past four years, reaching at least US\$24 billion in commitments by December 2010, with around US\$3 billion disbursed in 2010.¹ This estimate includes commitments from public and private funders supporting microfinance in developing countries. While total commitments, or the stock of funding, increased gradually, the growth rates have come down from an estimated 30 percent (2008) to an estimated 13 percent (2010) (see Figure 1).²

An analysis of the microfinance portfolios of the 20 largest microfinance funders shows that a larger number of projects closed in 2010 (US\$2.6 billion) compared to 2009 (US\$1.4 billion), while the amount of new commitments was higher than in previous years (US\$3.6 billion in 2010 compared to US\$2.9 billion in 2009).

Private and public microfinance funders growing at similar rates in 2010

The number and diversity of funders has increased. Today there is a broad range of funders with varying

Figure 1. Cross-border commitments to microfinance (US\$ billion)

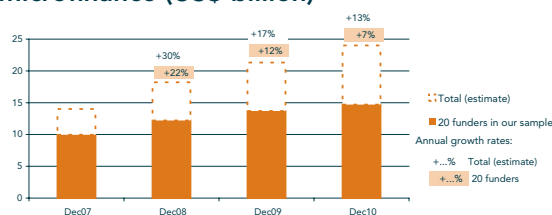
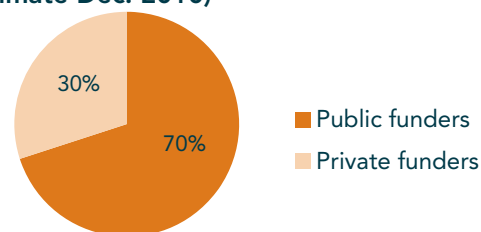


Figure 2. Commitments by type of funder (estimate Dec. 2010)



financial and social return expectations, and they use a variety of funding instruments. Public funders provide around 70 percent of total cross-border funding, while private funders provide around 30 percent (see Figure 2). Although private funding grew at a significantly higher rate than public funding in 2009 (33 percent as opposed to 11 percent), this difference diminished in 2010. Public funders increased their commitments by 8 percent in 2010, and private funders increased their commitments at only a slightly higher rate.³

Funders use diverse channels to support microfinance

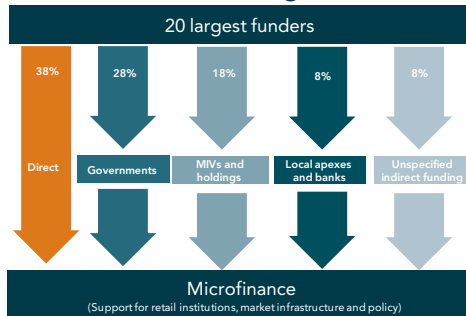
Funders provide funding both directly and indirectly. Overall, almost half of total cross-border funding is channeled through MIVs and other intermediaries. In 2010, the 20 largest funders channeled 18 percent of their funding via MIVs and holdings (see Figure 3), up from 13 percent in 2008, reflecting the growing number of intermediaries entering the market and their asset growth over the past years. The trend of funding via intermediaries is driven by development finance institutions (DFIs) who increased their funding via MIVs and holdings from 22 percent (2008) of total commitments to 29 percent (2010). Direct funding

1 All estimates are based on 2010 data from the 20 largest funders, 2009 data from 61 funders, and data from Symbiotics' MIV survey. Commitments represent the total amount of all active investments and projects, whether the funds have been disbursed or not. The average project length is between three and five years. For more information, see "Methodology" on page 4.

2 Because 46 percent of commitments are denominated in Euro, the depreciation of the Euro against the U.S. dollar has negatively impacted total commitments and the growth rate in 2010. At 2009 exchange rates, growth of global commitments of the 20 largest funders would have been 11 percent instead of 7 percent.

3 The growth in private investments is estimated based on MIV data provided by Symbiotics. Symbiotics reports that MIV assets grew by 10 percent from 2009 to 2010, compared to 25 percent in 2009 and 34 percent in 2008. MIVs receive around 25 percent of their funding from public investors, mostly development finance institutions included in the CGAP survey. Since public funders increased their commitments to MIVs by 15 percent in 2010, private investors must have increased their investments in MIVs by around 9 percent.

Figure 3: Funding channels (% of commitments of 20 largest funders)



represented 38 percent of the 20 largest funders' commitments in 2010.

Most funding to developing country governments is provided by multilateral agencies and regional development banks. Funding to governments decreased from 37 percent of total funding (2008) to 28 percent (2010), due to lower commitments from multilateral agencies overall. Governments use the funding to on-lend to retail financial service providers both directly or via apexes, for capacity building, or to strengthen the market infrastructure and policy environment.

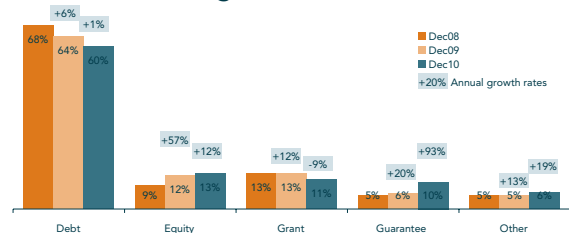
Debt remains most used instrument; equity investments and guarantees increasing

Debt remains the primary instrument used to fund microfinance (see Figure 4), but its share in total commitments decreased from 68 percent (2008) to 60 percent (2010). There are many different types of debt funding, ranging from highly concessional to commercial.

Funders provide loans in both local and hard currency. Out of direct debt funding (i.e., funding that is disbursed directly to a retail financial service provider), only around 14 percent is provided in local currency.

Equity investments and guarantees increased between 2007 and 2010. The share of equity funding in total commitments increased from 9 percent (2008) to 13 percent (2010), and funders diversified their investments across a larger number of institutions. The 20 largest funders had equity investments in around 150 institutions in December 2010 compared to around 100 institutions in 2008. One quarter of these institutions are MIVs and holdings, but they receive

Figure 4: Total commitments by instrument (data from 20 largest funders)



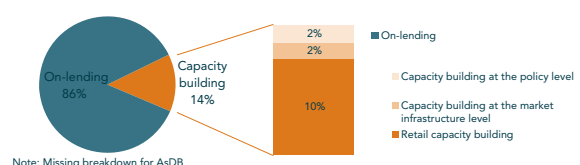
around 70 percent of equity investments, because the average investment in an MIV is larger than the average investment in a microfinance institution (MFI). The share of guarantees in total commitments increased from 5 percent (2008) to 10 percent (2010), mostly driven by four large new guarantee programs, which included a regional guarantee program focusing on East Asia and the Pacific (EAP) and a guarantee program for India.

For the first time in the past four years, the amount of grants committed by the largest 20 funders decreased in 2010 (down 9 percent), mostly due to projects ending in 2010 and the fluctuations in the Euro/US\$ exchange rate, but also due to a slowdown in grants approved. The 20 funders surveyed accounted for 67 percent of total grant funding in 2009. While other grant funders could have increased their portfolio, it is unlikely that they would have reversed the general trend due to the lower absolute size of their portfolios.

Capacity building remains steady

The share of total commitments used for capacity building has remained stable, representing between 14 and 17 percent of total commitments over the past four years. Capacity building is mostly funded through grants and loans to governments. While small in comparison to refinancing loan portfolios of MFIs, even small amounts of funding for capacity building can potentially make a big difference (see Figure 5). Funders support capacity at all levels of the financial

Figure 5: The purpose of funding (% of commitments of 20 largest funders as of Dec. 2010)



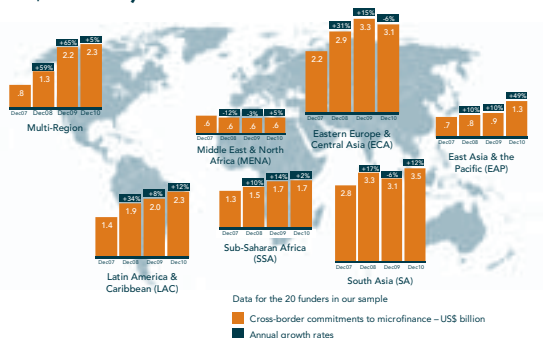
system—retail institutions, market infrastructure, and policy—with the retail level receiving the largest share (see Box 1).

Regional allocation of funding remains stable

South Asia—home to some of the world’s most populous and most developed microfinance markets—attracted high levels of cross-border funding over the past four years (see Figure 6). India has received the highest share of global funding (i.e., around 18 percent of the 20 largest funders’ commitments). Seventy-eight percent of funding to India is channeled through the government and 21 percent through local wholesale institutions, such as NABARD, ICICI, and SIDBI. Only 1 percent is provided directly to MFIs, since legal restrictions limit direct investments in Indian MFIs. Additional funding reaches India via MIVs and holdings.⁴

While there were no major shifts in the regional allocation of funding, growth rates vary across regions. Commitments to Latin America and the Caribbean increased by 12 percent. Commitments to Eastern Europe and Central Asia (ECA) decreased for the first time in the past four years in dollar terms.⁵ Commitments to sub-Saharan Africa (SSA) increased steadily, albeit at slower growth rates than commitments globally. Five of the funders surveyed expect to offer more funding for SSA in 2011. Funding from cross-border funders to the Middle East and North Africa remains relatively consistent at US\$ 0.6 billion. Commitments to EAP increased by 49 percent—the highest growth reported in any region—thanks to a new large regional program and increased commitments to Indonesia.

Figure 6. Commitments by region (US\$ billion)



⁴ The country allocation of funding via MIVs and holdings is not available.

⁵ In Euro-terms commitments to ECA slightly increased in 2010, however, at a much lower rate than in previous years.

Box 1. Funding for Policy Reform

Funders can contribute to favorable policy environments through grants or long-term loans to governments. Projects focus mostly on regulation and supervision of MFIs and, to a lesser extent, on branchless banking and financial cooperatives. Other activities include support for national financial inclusion strategies, consumer protection, and financial education. The share of total commitments dedicated to policy work is small (2 percent of total commitments). Nonetheless a funder with the right skills, access to the relevant decision-makers, and a long-term commitment can make an effective contribution even with a small budget. The main funders providing support at the policy level are the World Bank, Asian Development Bank, GIZ, Bill & Melinda Gates Foundation, and USAID.

DFIs portfolios highly concentrated

The 10 DFIs that participated in the CGAP Funder Survey in 2011 reported microfinance commitments of US\$9.1 billion as of December 2010. Half of this funding was committed to only 30 recipients: 12 MFIs, with an average investment of US\$120 million per institution, and 18 MIVs, holdings, local banks, and funds with an average investment of US\$160 million.

Overall, the 10 DFIs provided direct funding to around 360 MFIs with an average of US\$12 million committed to each institution. Out of these MFIs, 39 institutions received funding from three or more DFIs. With some exceptions, these 39 MFIs are part of an international network (Procredit, Access, FMFB, MicroCred) and/or are leaders in their market. Two hundred and fifty-two MFIs received funding from only one of the DFIs in the survey sample.

In 2010, DFIs channeled US\$4.6 billion through intermediaries, including US\$2.6 billion through 50 different MIVs and holdings, with three institutions, namely ProCredit Holding, EFSE, and Microfinance Enhancement Facility, representing close to half of this amount. Some DFIs have considerable exposure to individual institutions, be it MFIs or intermediaries. On average, the top investee represents 13 percent of a DFI’s portfolio. This concentration decreased over

the past years, as DFIs diversified their portfolios and number of investees.

Looking ahead

Cross-border funders remain committed to microfinance and financial inclusion more broadly. Funders see responsible finance as one of their main focus areas in financial inclusion for the next five years, likely as a response to the perceived reputation risks associated with concerns around overindebtedness in some markets.⁶ Going forward funders want to further play a role in moving beyond the credit-only model and in increasing outreach to still under-served markets.

Methodology

This paper is based on data from the CGAP Funder Survey, an annual survey conducted by CGAP with the major cross-border funders. In 2011, CGAP surveyed a subset of 20 microfinance funders that together represented 85 percent of total commitments reported in the previous survey year and included the major funders in all regions (see Table 1). Unless specified otherwise, data in this paper are given for this subset of 20 cross-border funders. Growth rates of funding by level of the financial system and by purpose are based on a subset of respondents for which data are available for all four years. Total global

commitments to microfinance are estimated based on four years of data from the 20 largest funders, 2009 data from 61 funders, and data from 90 microfinance investment intermediaries collected by CGAP and Symbiotics.

The regional allocation of funding is based on all direct funding and indirect funding with a clear regional focus (e.g., funding via MIVs active in only one region). All other indirect funding is allocated to the category "multi-region." DFIs' commitments at market infrastructure and policy levels are not fully captured by this survey.

Table 1: Funders surveyed in 2011

TYPE	FUNDER(S)
Public funders	
Development Finance Institutions	AECID, AFD Proparco, DCA USAID, EBRD, EIB, FMO, IFC, KfW, MIF IADB, OPIC
Multilateral and UN agencies	AfDB, AsDB, EC, IFAD, World Bank
Bilateral agencies	CIDA, DFID, GIZ
Private funders	
Foundations	Bill & Melinda Gates Foundation
Institutional Investors	ABP

⁶ Projections made in this paragraph are based on funders' qualitative statements. Future priorities in order of frequency mentioned by funders are rural finance, promoting responsible finance, supporting mobile and branchless banking initiatives, regulation and supervision, and supporting saving services.

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