

Current Trends in Cross-Border Funding for Microfinance

In 2011, cross-border funders committed at least US\$25 billion to microfinance or financial services for the poor. CGAP research shows that levels of cross-border funding continued to increase despite the global financial crisis and strained national budgets, but at a much lower growth rate, indicating that cross-border funders were adjusting to the new environment. The analysis of the global trends in the microfinance funding landscape in this Brief is based on data from CGAP’s surveys of cross-border funders.¹

Commitments continue to increase, but at the slowest rate in the past five years

Total commitments increased gradually over the past five years, but the average annualized growth decreased from an estimated 17 percent per year between 2007 and 2009 to 6 percent per year between 2009 and 2011 (see Figure 1).

The slower growth can be explained by the fact that funders committed the same amount of funding in new projects in 2011 compared to 2009, and at the same time, more projects closed in the past two years. Most donor projects extend over several years, with average maturity at around five years. Donors normally have a pipeline of new projects that replace current projects as they mature. Between 2007 and 2009, new commitments averaged US\$2.8 billion annually and closed projects averaged US\$0.4 billion per year for a net gain of US\$2.4 billion per year. However, from 2009 to 2011, average net gain amounted to only US\$0.6 billion annually, with change

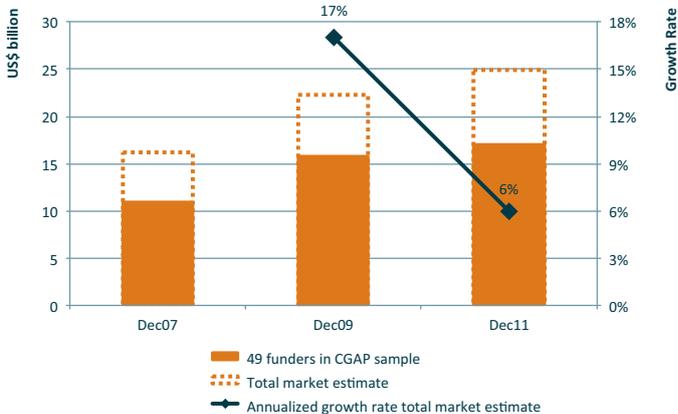
driven by closed projects increasing at a significant rate (on average US\$2.2 billion per year). As a result, net new commitments to microfinance now represent only 7 percent of total commitments compared to 31 percent of total commitments in 2009.

Public funding dominates, but private funding is growing faster than public funding

Overall, the share of public funding continues to be higher than the share of private funding (see Figure 2) at around two-thirds of the total commitments to microfinance (US\$17 billion). Private funders represent approximately one-third (US\$8 billion) of total commitments.

Private funding grew at a faster rate than public funding did in the past five years. Between 2009 and 2011, the average annualized growth rate for private funding is estimated at 12 percent compared to the 3 percent growth rate of public funding. In contrast,

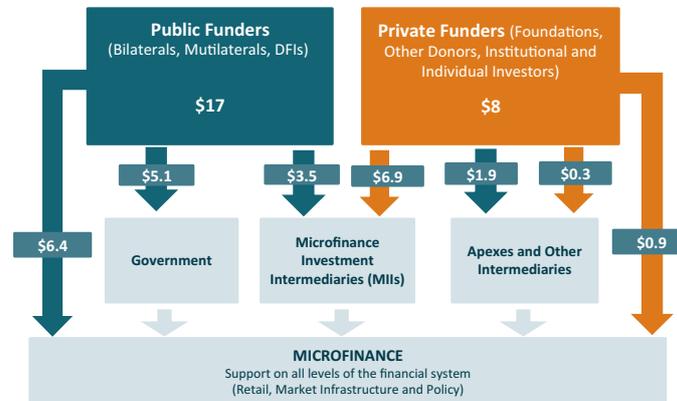
Figure 1. Cross-Border Funding Commitments to Microfinance, 2007–2011



Sources: 2008–2012 CGAP Cross-Border Funder Survey and 2008–2012 Symbiotics MIV Survey

1. For more information see “Methodology” at the end of this paper. The CGAP Cross-Border Funders Survey may be found at www.cgap.org/data and <http://www.slideshare.net/CGAP/tagged/Donors%20and%20Investors>.

Figure 2. Cross-Border Funding to Microfinance by Recipient Type (Total Estimate US\$25 billion, as of December 2011)



Sources: 2012 CGAP Cross-Border Funder Survey and 2012 Symbiotics MIVs Survey

between 2007 and 2009, the average annualized growth rate for private funding is estimated at 19 percent versus 16 percent for public funding.

Institutional and individual investors drove the growth in private funding, and data suggest that despite difficulties in some microfinance markets, these investors still find microfinance to be an attractive investment. On the other hand, data suggest that the slower growth in commitments by public funders can be explained by the fact that some of these public funders investors had to adjust their commitments in response to internal pressures (e.g., budget cuts, staff capacity) and/or shifting objectives toward small and medium enterprise finance and more broadly financial inclusion. Out of 35 public funders reporting to CGAP, one-third decreased their overall commitments in 2011.

More cross-border funding is channeled indirectly than directly to retail providers

Cross-border funders tend to channel their funding through intermediaries such as microfinance investment intermediaries (MIIs)² and local apexes that can offer cost-effective ways to move funding quickly. Half of all cross-border funding is channeled through such intermediaries (see Figure 2). One-third of all cross-border funding is allocated directly. Development finance institutions (DFIs) provide the bulk of direct funding (63 percent). Multilateral agencies mainly channel their funding via developing country governments; this type of funding represents 20 percent of all cross-border funding.

Different growth rates in commitments may indicate an upcoming shift in regional allocations

South Asia (SA), Europe and Central Asia (ECA), and Latin America and the Caribbean (LAC) still receive the highest amounts of cross-border funding (see Figure 3). These three regions combined receive more than 60 percent of total commitments.

However, regional allocation of funding is changing. As a result of the financial crisis, commitments to ECA decreased by 5 percent per year on average between 2009 and 2011 to reach US\$3.1 billion. In contrast, commitments to Sub-Saharan Africa (SSA), the Middle East and North Africa (MENA), and East Asia and the Pacific (EAP) increased during the same period. Commitments to SSA grew by 12 percent annually on average to reach close to US\$2.7 billion; a level near that of commitments for LAC. While MENA (US\$1.1 billion) and EAP (US\$1.5 billion) still receive the least funding for microfinance of all the regions, commitments in both regions increased significantly in the past two years, with an average annualized growth rate of 20 percent and 19 percent, respectively.

The main purpose of funding remains refinancing loan portfolios of retail providers

Depending on the stage of development of any given market, funders can provide different kinds

2. MIIs include MIVs and holdings.

Figure 3. Regional Allocation of Total Commitments, 2009–2011



Source: 2010–2012 CGAP Cross-Border Funder Survey

of support at all levels of the financial system. They can refinance the loan portfolio of retail providers, and/or strengthen their capacity. Funders can also support the market infrastructure and the regulatory environment. Both are important areas in integrating microfinance into formal financial systems.

The bulk of cross-border funding continues to be used for refinancing retail providers (US\$13.5 billion or 77 percent of the total commitments), while funding to build capacity stood at US\$2.7 billion or 15 percent of the total commitments (see Figure 4).³ Over the past two years there was little change in the purpose of funding.

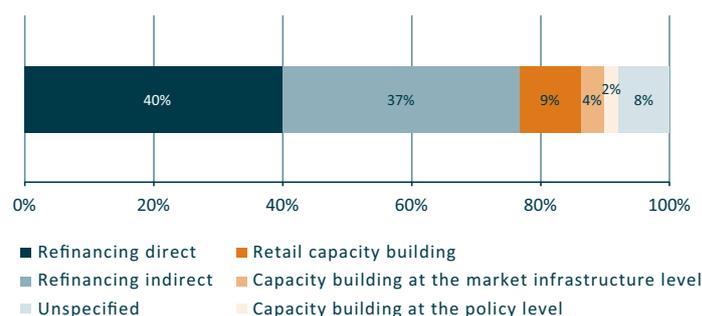
Debt dominates, but equity and guarantees are on the rise

Debt funding did not experience any growth between 2009 and 2011, but it remains the main instrument used by cross-border funders to fund microfinance (55 percent of total commitments). DFIs most commonly provide

debt to finance the loan portfolio of retail providers (see Figure 5). Multilateral agencies also provide loans to governments that are then on-lent to microfinance institutions and/or used to support capacity-building initiatives at all levels of the financial system. While multilateral agencies increased their debt funding by 3 percent per year on average, DFIs decreased their debt position by 1 percent per year on average.

Both equity investments and guarantees are important instruments because they can enable retail providers to access local sources of funding and build sustainable markets. Cross-border funders increased their funding through both equity and guarantee instruments. Between 2009 and 2011, equity investments increased by 12 percent per year on average. DFIs increased their direct equity investments in all the regions except for ECA, where on balance they exited.⁴ They also increased their equity investments in MFIs (by 10 percent annually on average). The amount committed through guarantees increased by 32 percent per year on

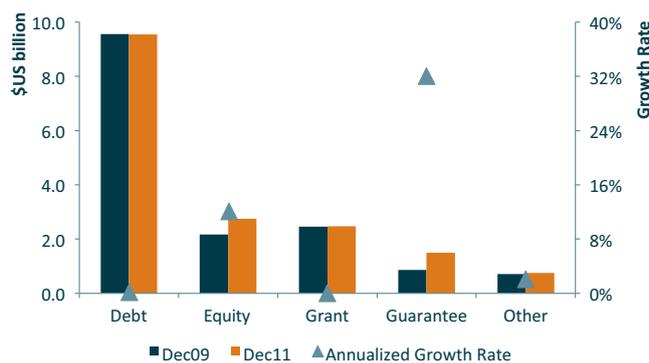
Figure 4. Purpose of Funding (% of Total Commitments as of December 2011)



Source: 2012 CGAP Cross-Border Funder Survey

3. As of December 2011, US\$1.3 billion (or 8 percent of total commitments) was reported as "unspecified."

4. Equity investments by DFIs represent 82 percent of the equity investments reported to CGAP as of December 2011.

Figure 5. Commitments by Instrument, 2009–2011


Source: 2010–2012 CGAP Cross-Border Funder Survey

average in the same period. This was mostly driven by four large guarantee programs approved in 2010 that focused on EAP and India.

DFI funding growth slows and remains concentrated in a few countries and MIs

DFIs surveyed in 2012 are the largest type of cross-border funders, accounting for 38 percent of the estimated global commitments valued at US\$9.6 billion as of December 2011. Their commitments grew at a significantly slower rate between 2009 and 2011: 4 percent per year on average compared to 36 percent per year on average between 2007 and 2009.

Five countries (India, Turkey, Peru, Indonesia, and Russia) accounted for 20 percent of DFIs' total commitments (US\$1.9 billion). Twenty-five percent of DFIs' commitments to retail providers support only 10 institutions (US\$1.1 billion). Thirty percent of DFIs' funding (US\$2.9 billion) is channeled through MIs, and two-thirds of this funding goes to only 10 MIs (US\$1.9 billion). DFIs' commitments to MIs grew at a slower pace between 2009 and 2011, with 9 percent per year on average compared to 51 percent per year on average between 2007 and 2009.

Looking ahead

Despite the slowdown of growth in commitments during the past two years, cross-border funders expect microfinance to remain important to their development agenda. They are committed to pushing the frontier to expand financial services for the poor, and count agricultural finance, rural finance, branchless and mobile banking, and responsible finance as their priorities for the next five years.⁵ In light of the current

global environment and the shift toward a broader vision for financial inclusion, cross-border funders will likely continue to adjust their priorities and the way they operate, and support the broader sector.

Methodology

This Brief is based on data from the CGAP Cross-Border Funder Survey. In 2012, CGAP surveyed 59 microfinance funders. Total global commitments to microfinance are estimated on data from 59 funders and publicly available data from Symbiotics MIV Surveys (www.syminvest.com). As of December 2011, the 59 cross-border funders reporting to CGAP represented 70 percent of the total market estimate of cross-border funding.

Trend data are available only bi-annually for a subset of 49 cross-border funders; growth rates are annualized according to the following method: Annualized growth rate = $[(\text{Ending value}/\text{Beginning value})^{(1/\# \text{ of years})}] - 1$. For example, the annualized growth rate between 2009 and 2011 was calculated as follows: Annualized growth rate = $[(\text{Commitments 2011}/\text{Commitments 2009})^{(1/2)}] - 1$. This means that, if we have an average annualized growth rate of 10 percent between 2009 and 2011, commitments grew by 10 percent on average between 2009 and 2010 and 10 percent on average between 2010 and 2011.

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." The CGAP survey does not capture policy-based lending of multilateral organizations and DFIs' large programs supporting the market infrastructure and policy levels.

5. Equity investments by DFIs represent 82 percent of the equity investments reported to CGAP as of December 2011.

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