The CGAP Funder Survey shows that international funders committed US$42 billion to financial inclusion in 2017, a double-digit percentage increase from the prior year. At the same time, the nature of funders’ engagement is shifting to reflect their broader development priorities. As funders venture into digital financial services (DFS), their interventions focus on building the necessary ecosystem for DFS to thrive as opposed to mostly funding the loan portfolios of financial services providers (FSPs). And while debt funding continues to be the main funding instrument, equity funding has been on the rise, and grants have declined for the first time in a decade.

Double-digit growth in funding confirms strong support for financial inclusion

In 2017, international funding for financial inclusion reached a record high of almost US$42 billion—a growth of approximately 12 percent from the prior year (Figure 1). For the first time in five years, public funding has grown faster (13 percent from US$26.3 to US$29.8 billion) than private funding (9 percent from US$10.8 to US$11.8 billion).

Development finance institutions (DFIs) are driving the growth in public funding: their commitment grew by 18 percent, reaching US$19 billion and contributing to more than half of the net growth in public funding. At the same time, commitments by bilateral and multilateral agencies declined by 6 percent. However, this is not surprising given that Official Development Assistance (ODA) for economic infrastructure had declined by 6 percent from US$23.36 billion to US$22.04 billion in 2016. And in 2017, overall ODA stagnated with less than 1 percent growth (OECD 2018) and economic infrastructure assistance declined by 2 percent from US$22.04 billion in 2016 to US$21.65 in 2017. According to OECD, this may be because major donor countries are focusing on their domestic priorities, including increased refugee flows.

On the private funding front, microfinance investment vehicles (MIVs) are driving growth (Symbiotics 2017 and 2018). Despite 2016 predictions of slowing growth, MIV assets grew by 10 percent that year and further increased by 18 percent in 2017. Private institutional investors continue to be the primary source of MIVs’ growth. Foundations grew at a similar pace, but since they represent less than 10 percent of overall private funding to financial inclusion, their growth has a negligible net effect in private funding trends.

The sustainable development agenda is reshaping the nature of funder engagement in financial inclusion

The adoption of the Sustainable Development Goals (SDGs) in 2015 seems to be shifting funders’ focus from financial inclusion as a goal in and of itself to that of an enabler of broader development and inclusive growth. Funders are increasingly expected to position financial inclusion as a cross-cutting priority and seek synergies in their programming to achieve the SDGs as well as financial inclusion outcomes.
This new paradigm puts focus and visibility at risk. Overall, funders report that their top concern is finding new projects that would leverage financial inclusion as an enabler of broader development goals. Objectives that require deep technical expertise to build inclusive financial systems, such as enabling policy, consumer protection, or financial infrastructure development, may not be priorities because they are not closely linked to the SDGs. Finally, repositioning financial inclusion as an enabler of SDGs makes it more difficult for funders to identify and track their entire financial inclusion portfolio across their organizations, which is an important step in ensuring accountability for results.\(^7\)

Notwithstanding these challenges and risks, funders expect that over the next three years, financial inclusion commitments will continue to grow and to represent the same or higher share of their overall development portfolio. This is especially the case for areas such as micro and small enterprise finance or rural and agricultural finance, which have historically received DFI attention.

However, when it comes to DFS—a relatively new area of focus for funders—the funding landscape differs significantly (Figure 2). Because DFS ecosystems are not yet fully developed, funders focus on infrastructure, policy, and capacity building. DFS funding for these components quadrupled in the past year, reaching US$500 million and accounting for almost a quarter of the overall funding for DFS (US$1.8 billion). The total amount of funding committed to DFS in 2017 is shared almost equally among all key funder types—DFIs, bilaterals and multilaterals, and foundations. But their efforts vary by type of intervention. For example, DFIs account for half of funding to FSPs, while foundations drive efforts on policy and capacity building.

The use of equity is increasing, and grants see a net decline for the first time in a decade

While debt continues to be the primary instrument accounting for over 50 percent of the funding commitments, there are some noteworthy changes in the overall mix of funding instruments (Figure 3). In 2017, equity became the second most used instrument, representing 13 percent of overall commitments. DFIs are primarily driving this growth.

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\(^7\) To have a full picture of their financial inclusion portfolio, funders need a standardized way of tracking projects across the organization. Both standalone projects and components of financial and nonfinancial sector projects should be tracked. CGAP’s work on aid effectiveness (e.g., SmartAid) shows that many funders do not have an adequate project identification system. This challenge may become more salient with financial inclusion becoming a cross-cutting priority in the SDG framework.
and most of their equity funding goes to MIVs, which in turn invest in FSPs through debt or equity.

For the first time in 10 years, active grant commitments saw a net decline of 9 percent in 2017 as compared to the year before. A decrease in new grant approvals since 2013 along with the termination of old projects ultimately led to a net decline in commitments for the first time (Figure 4). Bilateral funders, which account for almost 50 percent of grant funding, are driving this decline.

Figure 2. Funding commitments by purpose, 2017

Figure 3. Funding instruments for financial inclusion, active commitments (2009–2017)

Figure 4. Trends in grant funding by new and existing commitments (2009–2017)
While this decline is observed across all regions, it is most pronounced in Europe and Central Asia and Latin America and the Caribbean. It may be that bilateral funders feel they no longer need to focus on capacity building efforts or other grant-based interventions in these more mature markets for financial services.

Overall, the decline in grants should be explored further to better understand what it reflects. Is the decline in grant funding from bilateral funders a reflection of their shifting priorities? Are grants needed to a lesser degree? Are grants provided in areas of inclusive financial systems that require less volume of funding? Whatever the reason for this decline, funders should not overlook important areas that can still benefit from grant funding.

References


AUTHORS:
Olga Tomilova and Eda Dokle