CGAP

BRIEF

CGAP Funder Survey 2017: Trends in International Funding for Financial Inclusion

The CGAP Funder Survey shows that international funders committed US$42 billion to financial inclusion in 2017,[1] 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).[2] 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).[3,4]

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.[5] 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,[6] 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.

1 The estimated funding for financial inclusion is the sum of international funders' commitments to financial inclusion and the total assets of microfinance investment vehicles. The funding these investment vehicles receive from international funders was excluded to avoid double counting. For more information, see the survey methodology.

2 Funding estimates are rounded to the closest billion. The estimated commitments in 2016 and 2017 totaled US$37.16 billion and US$41.68 billion, respectively. Trends and subsequent breakdowns are calculated based on the responses of participants in the Funder Survey. These funders reported total commitments of US$30 billion, accounting for 72 percent of the total funding estimate. For more information on Funder Survey participants, see the survey methodology.

3 Public funding includes commitments of development finance institutions and bilateral and multilateral development/aid agencies.

4 Private funding includes commitments from foundations, private donors and investors, and MIV assets originating from high net worth individuals and other institutional investors.

5 Banking and financial services are considered "economic infrastructure."

6 In 2015, the Symbiotics MIV Survey projected that 2016 would mark the slowest growth for MIVs (accounting for the majority of private funding) in the past decade (Symbiotics 2017).

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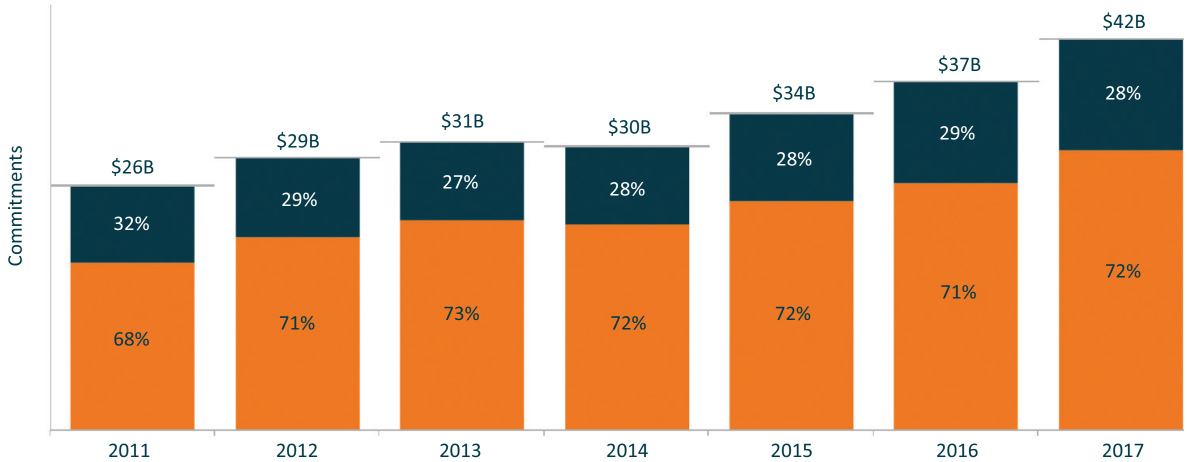
Figure 1. International funding trends for financial inclusion estimate (2011–2017)



Source: CGAP Funder Survey 2011-2017, Trendable Set N = 42 Funders, Symbiotics MIV Survey 2011 - 2017

■ Private Funding ■ Public Funding

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.

Funder priorities in DFS include creating the necessary ecosystem versus traditional FSP loan portfolio funding in more established segments

The 2017 Funder Survey shows that DFIs continue to be the largest funders of financial inclusion. And their instruments and business models drive what is being funded—namely, financing the loan portfolios of FSPs (either directly or indirectly) through debt. 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.

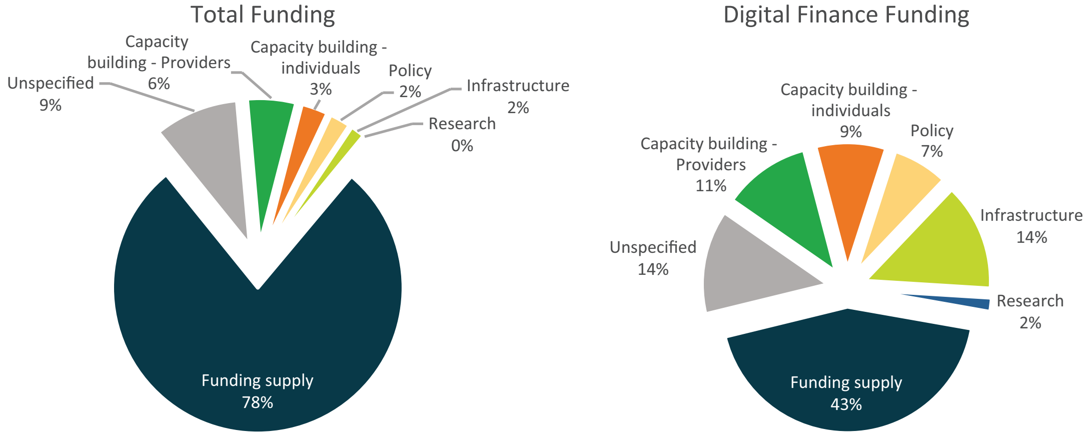
However, when it comes to DFS—a relatively new area of focus for funders—the funding landscape differs significantly (Figure 2). Because DFS ecosystems are not yet fully developed, funders focus on infrastructure, policy, and capacity building. DFS funding for these components quadrupled in the past 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,

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.

Figure 2. Funding commitments by purpose, 2017

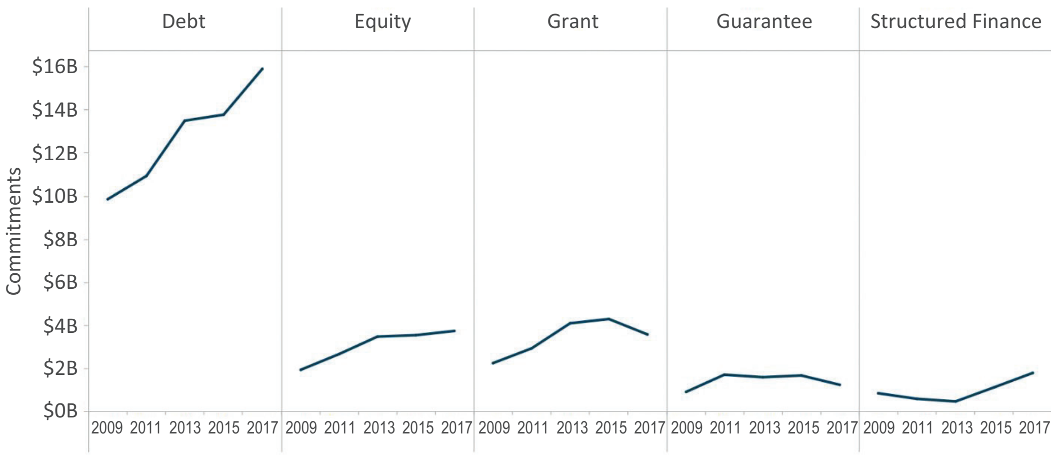


Note: DFS is a subcomponent of the total funding for financial inclusion. A financial inclusion project may partially or fully target DFS.

and most of their equity funding goes to MIVs, which in turn invest in FSPs through debt or equity.

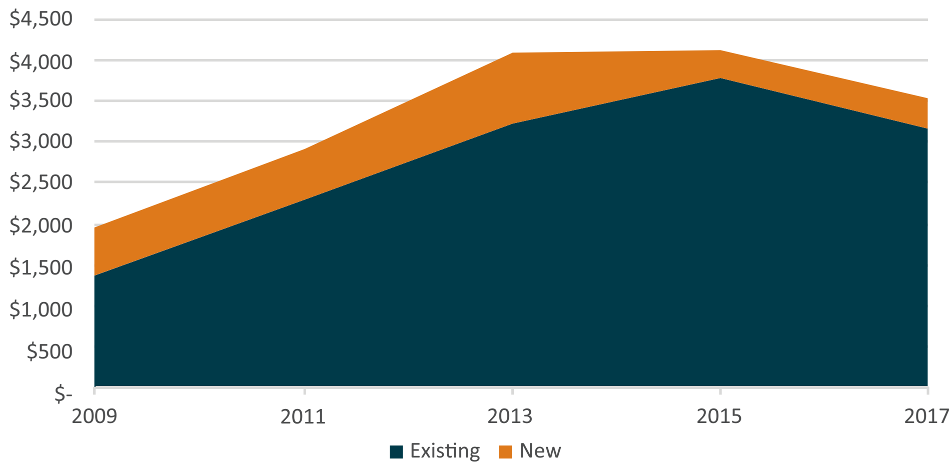
For the first time in 10 years, active grant commitments saw a net decline of 9 percent in 2017 as compared to the year before. A decrease in new grant approvals since 2013 along with the termination of old projects ultimately led to a net decline in commitments for the first time (Figure 4). Bilateral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

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



Source: CGAP Funder Survey 2009-2017. Trendable Set N = 42 Funders

Figure 4. Trends in grant funding by new and existing commitments (2009–2017)



Source: CGAP Funder Survey 2009–2017, trendable set N=32 funders

2017 Data Snapshot

For more on the results of the 2017 CGAP Funder Survey, see the 2017 Data Snapshot. The Snapshot addresses the following questions:

- How much international funding is going to support financial inclusion?
- What do funders fund? (Themes, funding purpose)
- Who do they fund? (Recipients)
- How do they fund? (Funding instruments)
- Where do they fund? (Geographic allocation of funding)
- What's next? (Challenges identified today and focus in the next three years)

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

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AUTHORS:

Olga Tomilova and Eda Dokle

CGAP

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CGAP
1818 H Street, NW
MSN IS7-700
Washington, DC
20433 USA

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

Email:
cgap@worldbank.org