International Funding for Financial Inclusion: Key Trends and Developments

The 2017 edition of CGAP’s annual Cross-Border Funder Survey reports funding commitments from the 23 largest international funders of financial inclusion, representing 80 percent of the full set of over 54 international funders and 73 percent of the global estimated funding commitments for financial inclusion in 2016.1 Financial inclusion, which is broadly perceived as an enabler of Sustainable Development Goals (SDGs), remains an important focus for funders. Survey results indicate that funding commitments continue to grow steadily, especially in Sub-Saharan Africa (SSA). International funders are increasingly targeting capacity building for financial services providers (FSPs) and financial inclusion policy and regulation, and at this point, every funder supports the development of digital financial services (DFS).

Funding for financial inclusion continues to grow steadily for the third year in a row

International funding for financial inclusion reached a historic high of US$37 billion in 2016, marking a 9 percent growth rate from the previous year. While, in terms of volume, growth stems from public and private funding alike,2 the latter is growing at a faster pace (more than 16 percent from US$9.5 billion to US$11 billion) than public funding (more than 6 percent from US$24.5 billion to US$26 billion).

While not directly comparable, this trend is in line with the general official development assistance trends reported by the Organisation for Economic Co-operation and Development (OECD). According to OECD, cross-border aid across all development sectors reached a new peak in 2016, growing by 8.6 percent (OECD 2017a). In 2016, public funders covered by the CGAP Funder Survey approved 499 new projects—twice the number of terminated projects, which resulted in a US$1.5 billion increase in public funding commitments.3

However, the 16 percent growth of private funding in 2016 comes as a surprise (Symbiotics 2017). The year before, the Symbiotics Microfinance Investment Vehicles (MIV) Survey projected that 2016 would mark the slowest growth for MIVs (making up the majority of private funding) in the past decade (Symbiotics 2017). However, the actual results suggest that (i) MIV assets have grown by 10 percent and (ii) growth is likely to continue in 2017 and at a more rapid pace.4

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1 CGAP surveys the full set of more than 54 funders biannually. In 2016, the CGAP Funder Survey was implemented for the full set of international funders. In 2017, a sample consisting of the top 23 funders was surveyed. CGAP has conducted the survey since 2008, and since 2012, in partnership with MIX.

2 Public funding includes commitments of development finance institutions and bilateral and multilateral development/aid agencies. Private funding includes commitments from foundations, private donors and investors, and microfinance investment vehicles’ assets originating from high net worth individuals and other institutional investors.

3 The global estimate is the sum of international funders’ commitments to financial inclusion and the microfinance investment vehicles’ (MIV) assets. The funding MIVs receive from international funders was excluded to avoid double counting. For more information, refer to the survey methodology at http://www.cgap.org/data/2016-international-financial-inclusion-funding-data.

4 Until 2016, forecasted growth rates included those MIVs that were expected to cease operations in each year. Hence, the forecasted growth was generally understated. For 2017, the forecast is adjusted to consider only those MIVs that are expected to remain active.
The trend is further confirmed by the results of the Global Impact Investing Network survey (2017), which shows that the greatest share of impact capital was allocated to microfinance and other financial services, followed by energy and housing. This is especially true for emerging-market-focused investors who allocated a higher share of capital to microfinance and other financial services (40 percent and 17 percent, respectively) in 2017 (GIIN 2017).

Funders target a broader range of actors in the financial inclusion space through the traditional mix of instruments

As new actors are entering the quickly evolving financial inclusion sector, a broader array of recipients is being funded. While funding of loan portfolios continued to represent three quarters of the overall funding volume in 2016, it is no longer exclusive to FSPs and intermediaries: mobile money operators and other digital services providers are now also a focus for financial and technical assistance at the retail level. At least one-third of the projects target capacity building across the various levels of the financial sector and half have a capacity building component for FSPs. Despite relatively small funding amounts, improving the financial ecosystem to enable financial inclusion is an important focus for funders. Capacity building of providers represents 7 percent of the overall funding volume. In addition, payments infrastructure has grown to be an important focus for funders and represents one-third of overall funding for financial sector infrastructure (2 percent of overall funding). Capacity building for end clients (individuals, households, and enterprises), policy, and regulation for financial inclusion collectively account for 5 percent of overall funding.

Following a decline in 2015, debt funding (over 50 percent of overall commitments) increased by 5 percent in 2016. Almost half of overall debt went to Europe and Central Asia (ECA), while the rest was relatively evenly distributed across the other regions. Both grants and equity, which accounted for 21 percent and 7 percent of total funding respectively, increased by 18 percent and 5 percent, respectively, in 2016.

Funding channeled to FSPs increased considerably in 2016, especially in the Middle East and North Africa (MENA). Funding to central banks and government had declined in the past two years, while funding to MIVs slightly increased after two years in recession.

Strategy adaptation is still the major challenge for funders—financial inclusion is seen as an enabler within the SDGs, and not as a standalone objective

For the third consecutive year, international funders identified strategy adaptation as their key challenge, due to the rise of other priorities and macro-level factors beyond funders’ control (e.g., natural disasters and conflicts). However, this priority shift does not seem to have affected funding decisions for financial inclusion yet: the share of financial inclusion is the same or higher within funders’ total development portfolio (about 25 percent). In 2016, funding flows for financial inclusion grew—one-third of commitments were made as part of broader financial-sector development projects (20 percent) and other development projects (e.g., water and sanitation, environmental protection, energy efficiency, etc.) (11 percent).

Apart from supporting micro and small enterprises (1,240 projects), funders placed significant focus on improving access to finance for rural and agricultural finance (647 projects), women’s economic empowerment (223 projects) (Box 1), and digital finance (181 projects) (Box 2). While these figures indicate relative focus, many projects are holistic in scope and target multiple themes simultaneously, making it difficult to break down funding to any given theme based on the funder survey dataset.

SSA ranks second in terms of funding volume and first in terms of number of projects

The funding for SSA grew by 30 percent in 2016, reaching US$3.5 billion in commitments through 611 active projects. While funders have been increasing their active projects steadily in the region for the past five years,
the growth of commitments was much higher in 2016. This also indicates a growth in the average project size (from US$5 million to US$6 million). While public funders continue to drive the growth in SSA, foundations have grown the fastest over the past three years in terms of the number of projects, resulting in 25 percent of all projects committed to by foundations in 2016.

On the other hand, in ECA, which traditionally has been the top-funded region, funding has been declining for the second year in a row, with most of the commitments coming from development finance institutions (DFIs) and multilaterals and very few from other types of funders. The average commitment in ECA per project in 2016 was $12 million—double the average project size in SSA, which explains why ECA is the leading region in terms of funding volume but only second in terms of the number of projects (451 projects).

After a continuous decline in both the number of projects and funding commitments, the 2016 funding volume to Latin America and the Caribbean (LAC) stayed at the 2015 level, and the number of projects spiked to 388 in 2016 compared to 321 in 2015.

Funding to MENA has been steadily growing (more than 12 percent in 2016), while funding to South Asia (SA) and East Asia and the Pacific (EAP) is stable.

The top five countries receiving the most financial inclusion funding in 2016 are Turkey, India, Egypt, Cambodia, and Indonesia. Together, they account for 25 percent of all single country funding. Except for Cambodia, the average project sizes in these countries are several times higher than the global average. Thus, only 10 percent of all active projects are in these five countries. The countries with the highest number of projects are India (119), Cambodia (74), Kenya (52), Nigeria (49), and Honduras (43).

Looking at the geographic allocation of financial inclusion funding by country income classification, lower middle-income countries are the greatest beneficiaries in terms of active projects and commitments ($6 billion). However, funding to low-income countries has grown the quickest—by 13 percent annually since 2014.

Looking ahead: SSA has the spotlight and financial inclusion is increasingly perceived as an enabler for SDGs

Though financial inclusion is not a standalone goal within the SDG agenda, in the next three years, funders will likely maintain the same or higher portion of their financial inclusion development funds (according to 70 percent of CGAP Funder Survey respondents). However, it would be important to understand how funders will
manage the shift toward the broader development agenda and how financial inclusion will be positioned within their overall development portfolio. Funders will likely prioritize capacity building for FSPs and the development of enabling policy and regulation for financial inclusion. In terms of geographical focus, it seems that SSA will continue to be the priority followed by SA and MENA—regions where funders plan to increase their focus significantly. Conversely, ECA and LAC are likely to receive less funding in the next three years.

**References**


**Figure 3. Funding trends by region (2011–2016)**

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AUTHORS:

Olga Tomilova and Edlira Dashi