

# Trends in International Funding for Financial Inclusion

In recent years, the development community has sustained support for microfinance but broadened funding to encompass a wider goal of financial inclusion.<sup>1</sup> International funders (referred to in this Brief as funders) have been adapting their priorities to meet this broader vision, as reflected in the 2012 CGAP Funder Survey. This Brief analyzes trends in the international funding landscape for financial inclusion.

The 2012 survey methodology was updated to reflect more systematically the broader vision of financial inclusion. New types of projects were added, including those that support access to finance for *small enterprises*, which were excluded in previous years as the focus was only on microenterprises, and the allocation of funding to a new purpose category related to the increase of *end-clients' capabilities*. A qualitative aspect was also added to further understand the funding purpose of each project. The qualitative framework presents **barriers and challenges to financial inclusion** and their corresponding **solutions** (see Methodology section for further details).

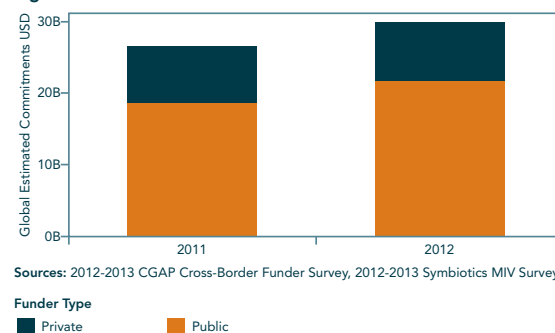
Funders committed at least \$29 billion in 2012 to support financial inclusion—an estimated increase of 12 percent compared to 2011 (see Figure 1). This increase stems largely from an improved economic environment. Note, however, the growth may be overestimated in cases where the inclusion of funding for small enterprise finance could not be accurately reflected in data before 2012 (see Methodology section).

## Public funding is growing faster than private funding

Public funding for financial inclusion represented more than 70 percent of the global estimate. Despite continued pressure on public resources, public funders increased their commitments by 16 percent between 2011 and 2012. They approved close to \$3.4 billion in new projects in 2012—68 percent more than the previous year—while they closed fewer projects (\$1.1 billion in 2012 versus \$2.8 billion in 2011).

Commitments from private funders to the sector grew at a much slower pace of 2 percent between 2011 and 2012.<sup>2</sup> Even though other surveys show that microfinance investment intermediaries (MIIs), the main channel of private funding, increased their investments to retail financial service providers (FSPs) in 2012, the increase was partially driven by drawing on an existing pool of assets that were committed prior to 2012 (Symbiotics 2013 and MicroRate 2013). Private commitments to MIIs grew more modestly in 2012.<sup>3</sup>

Figure 1. Global Commitments to Financial Inclusion



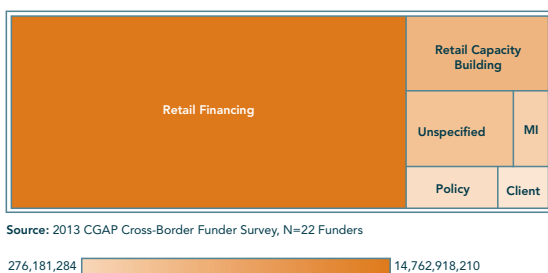
## Funders perceive the limited institutional capacity and lack of suitable range of products of FSPs as major barriers to financial inclusion

Most funding continues to finance the portfolios of retail FSPs (\$14.8 billion, representing 78 percent of commitments), and survey respondents do not see the lack of funding as a key barrier to financial inclusion (see Figure 2). Rather, they identify the lack of a suitable range of products and services and the limited institutional capacity of FSPs as the major barriers to

1 CGAP defines financial inclusion as a world in which all households and business can access and use a broad range of financial services that increase economic opportunity and reduce vulnerability to shocks, and that are responsibly and sustainably provided by the institutions permitted to do so.  
 2 Private funding in our estimate is a combination of data from the CGAP Funder survey with MII data from the Symbiotics MIV (microfinance investment vehicle) Surveys, and removing any double counting that may result from public funding going to MIVs, which is reflected in both surveys. CGAP also performs global MII market estimates based on the assumption that the average of indicators (portfolio, assets, undrawn commitments, etc.) apply to the entire universe of MIIs.  
 3 In 2012, private institutional investors remained the prominent source of funding for all MIVs reporting to the Symbiotics survey, with 61 percent of total assets and a growth rate of 15 percent between 2011 and 2012. On the other hand, retail investor contributions to MIVs decreased by 13 percent.

financial inclusion. Efforts to address these barriers are seen through significant commitments to strengthen the capacity of FSPs (\$1.8 billion or 10 percent of total funding).<sup>4</sup> Analysis of the reported solutions by projects further confirms this conclusion. The number of projects pursuing a given solution is used as a proxy to gauge the relative importance of each solution for the funders. One project may aim at multiple solutions and so the breakouts presented below when totaled will exceed the total number of projects reported. Over half of all projects supporting other areas besides financing FSPs focused on designing suitable products and services (365 projects) and improving operations (366 projects); while a similar number focused on improving management and governance (323 projects) and on improving responsible finance practices (273 projects).

Figure 2. Funding by Level of Intervention in 2012



Funders committed \$0.28 billion to enhance the capabilities of current or potential clients of FSPs.<sup>5</sup> Their projects focused mainly on improving financial capability (54 projects) and strengthening self-managed organizations (26 projects). Most funders' efforts to enhance clients' capabilities were concentrated in South Asia (SA) and Sub-Saharan Africa (SSA).

Funders committed smaller amounts to the market infrastructure (\$0.5 billion) and policy levels (\$0.4 billion). Although projects at these levels usually require less funding, they do require specialized expertise that only a few funders have. Market infrastructure projects focused on capacity-building services (322 projects), information and transparency (304 projects), and payment systems (218 projects). Policy projects focused on enhancing traditional financial regulation and supervision (312 projects) and consumer protection (258 projects).

## While most funding is channeled indirectly, direct funding to FSPs is on the rise

Depending on the funders' institutional structure and resources, projects can be funded directly or indirectly. Direct funding to FSPs increased by 29 percent between 2011 and 2012, reaching \$6.5 billion. Funding channeled indirectly through intermediaries such as MIs, local banks and apexes, or other indirect means<sup>6</sup> accounted for 30 percent of the funding in 2012 (\$5.8 billion). Funding to MIs grew at a much slower pace (+1 percent) whereas funding via apexes decreased by 8 percent compared to last year. Funding channeled via national governments represented 25 percent of the total (\$4.7 billion) as multilateral funders are often mandated to use this channel. There was no increase in funding allocated through this channel, however.

## Funders have increased their use of debt and grant instruments

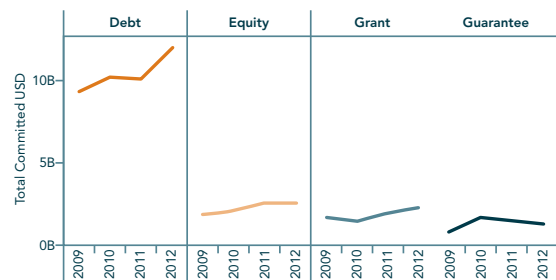
Debt financing continues to be the most important funding instrument with \$12 billion committed in 2012 (see Figure 3). Development finance institutions (DFIs) usually use debt to finance the loan portfolio of FSPs, but multilateral agencies also provide loans to governments that are then on-lent to FSPs and/or used to support capacity-building initiatives at all levels of the financial system. After a drop last year in debt commitments, they grew significantly (+19 percent) as DFIs increased their retail financing after the global economic crisis especially in Eastern Europe and Central Asia (ECA). However, this growth is also explained by a change in the survey methodology (see Methodology section). Grants totaled \$2.3 billion in 2012 and were mostly targeted for retail capacity building of FSPs. Only a few funders drove the 15 percent growth in grant funding, in particular in the Middle East and North Africa (MENA) and East Asia and the Pacific (EAP). Growth in equity commitments (\$2.6 billion) was modest (+2 percent), due to a decrease in commitments to MIs.

<sup>4</sup> To better understand how this funding was allocated, the number of projects was used as a proxy to signal importance as funders are not able to provide commitments for each purpose (see Methodology section).

<sup>5</sup> While in terms of commitments and number of projects the client level received the least attention, some projects implemented by FSPs, market infrastructure actors, or policy makers may have a client component that cannot be captured explicitly.

<sup>6</sup> Other indirect means include funding to another international funder or channeling funds through specific programs or vehicles created for a particular project.

Figure 3. Trends by Instrument



Sources: 2010-2013 CGAP Cross-Border Funder Survey, Same Set: N=18 Funders

## SSA has become a top-priority region for international funders

For the first time, commitments to SSA, totaling \$2.7 billion, exceeded commitments to Latin America and the Caribbean (LAC) (\$2.2 billion), indicating a shift in funders' regional priorities (see Figure 4). Moreover, SSA will remain the region where funders focus the most in the next three years. Commitments to LAC decreased by 5 percent due to the closure of some large projects. ECA and SA continued to receive the most funding for financial inclusion with \$4.7 billion and \$3.4 billion, respectively. ECA, one of the regions most affected by the global financial crisis, experienced a high growth in funding (+25 percent) due to increased commitments by DFIs as global economic conditions improved. However, some of the growth is explained by the survey's methodology update to include commitments to micro and small enterprises (MSEs) (see Methodology section). MENA and EAP continue to receive the least funding, but commitments in both regions increased (25 percent in MENA and 17 percent in EAP).

## Looking ahead

With improved economic conditions, international funders, especially public funders, increased their

commitments to advance financial inclusion in 2012. Funders indicated that they will focus primarily on making the management and governance of FSPs more effective and improving responsible practices of FSPs in the next three years. These efforts undoubtedly will be reinforced by funders' current engagements in improving FSPs' capacities, helping design better products, enabling greater information flows and transparency, and building a more protective policy environment.

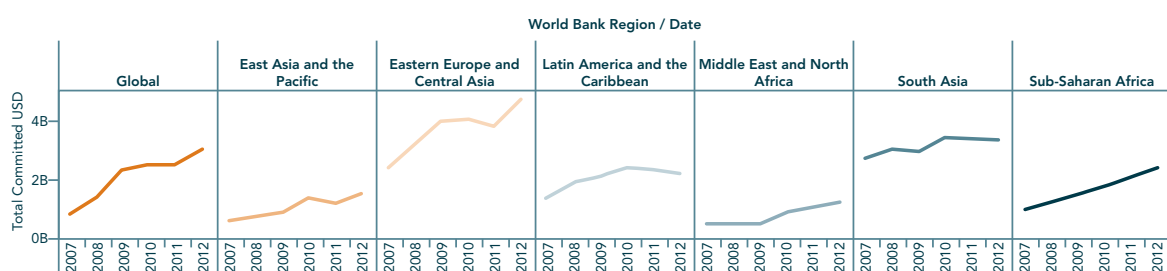
While the future outlook is encouraging, funders also reported facing key internal challenges that, if not addressed, could limit their efforts. Many continue to grapple to adapt their strategy in the evolving financial inclusion landscape and operationalize it with the appropriate internal systems (e.g., procedures, staff capacity, monitoring, etc.). With 2.5 billion adults still lacking access to formal financial services and a more complex financial inclusion landscape, funders need to find better ways to build an adaptive and innovative market system that serves the poor (El-Zoghbi and Lauer 2013).

## Methodology

This Brief is based on data from the CGAP Cross-Border Funder Surveys. In 2013, CGAP surveyed 22 international funders, which represented 86 percent of commitments reported the previous year (for the list of funders surveyed, go to [www.cgap.org/data](http://www.cgap.org/data)). Total global commitments to financial inclusion are estimated on data from this sample and publicly available data from Symbiotics MIV Surveys ([www.syminvest.com](http://www.syminvest.com)). Other trend data are available on a subset of 18 funders.

In addition, the 2013 survey methodology was updated to reflect more systematically the broader

Figure 4. Trends of the Regional Allocation of Commitments



Sources: 2008-2013 CGAP Cross-Border Funder Survey, Same Set: N=18 Funders

vision of financial inclusion. One important change is the inclusion of projects that support access to finance for small enterprises. While in previous surveys, CGAP attempted to remove this portion of the projects' commitments to focus only on microfinance, in 2013 funders reported on MSEs. Projects supporting medium enterprises are not included, but funders' reporting systems do not always allow excluding this portion, and adjustments were made on a case-by-case basis.

Another change is the inclusion of funding allocated to the client level in addition to the retail FSP, market infrastructure, and policy levels of the financial system included in previous surveys. The goal of projects at this level is to enhance current and future FSP clients' capabilities.

Historical data were updated where possible to reflect these changes. However, because projects closed before 2012 could not all be added retroactively, the historical data do not fully represent the commitments to financial inclusion in prior years. This may result in over-estimation when reporting growth trends.

Finally, we introduced a qualitative aspect to the survey to further understand the purpose of reported projects. The framework has been organized in two main categories: barriers and challenges to financial inclusion and their corresponding solutions. Within

each grouping of solutions, there is a comprehensive, but not mutually exclusive, set of detailed solutions (detailed solutions are available on [www.cgap.org/data](http://www.cgap.org/data)). Funders identified which of these detailed solutions the reported projects aim to address. One project may have multiple detailed solutions listed as its purpose. We use the number of projects pursuing a given solution as a proxy to gauge the relative importance of each solution for the funders since survey respondents are not always able to provide disaggregated project commitments for each purpose.

Additional data are available on [www.cgap.org/data](http://www.cgap.org/data).

## References

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